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ECONOMIC AND INDUSTRIAL AFFAIRS

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11 September 1984

EAST EUROPE REPORT

ECONOMIC AND INDUSTRIAL AFFAIRS

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COUNTERPLANNING USE IN SELECTED CSR AREAS DISCUSSED

Prague PLANOVANE HOSPODARSTVI in Czech No 4, 1984 pp 51-60

/Article by Eng J. Macek and Eng P. Smula, Czech Planning Commission:
"Experience from Applying Counterplanning in Selected CSR Departments"/

/Text/ One of the basic goals in improving the system of planned management after 1980 has been to set up conditions for making better use of intensive factors of economic growth. A requirement for intensifying the national economy and increasing its efficiency is continued improvement in all forms of management work, including increasing the active participation of workers. An expression of the growing initiative and activity of workers under the terms of the Set of Measures was making use of the method of counterplanning as one of the methods for preparing annual draft plans at individual levels of management. The application of its principles also brings about the closest and most harmonious linking of the interests of society with the particular interests of the organization, collective or individual. Proceeding from the essence of the economic mechanism whose basic instrument of management in a socialist economy is the plan, it follows that it is important to make use of worker initiative not only in carrying out the plans but also in the process of its formation. This, however, does not mean that there is no interest in discovering and using any unused potential at any point in the planning process. However, priority is given to integrating it into the plan because it is important to make planned use of all opportunities in the economic potential of the national economy. Thus the basic goal of counterplanning is to mobilize the internal resources of the economy while at the same time making use of the abilities, knowledge, experience and suggestions of the workers while the annual draft plans are still in preparation.

Basic Principles of Counterplanning

The system of counterplanning has been in effect in the national economy ever since the 1st year of the Seventh 5-Year Plan, but even now we encounter certain irregularities in its principles. Therefore, we will list them briefly:

--On the basis of the goals, resources and limits which are specified in the 5-year plan and any subsequent specifics for a given year (guidelines), the various levels of management will accept counterplans which they incorporate into their draft plans.

--Any upgrading of tasks in the year's draft plan over the 5-year plan (guidelines) will involve monetary incentives; monetary penalties apply if the prescribed goals are not met.

--The next higher management level will review the efficacy of the proposed counterplan, the accuracy of the monetary incentive computation and any supplier coverage of raw material and material needs, and will decide on its acceptance and integration into its draft plan. The proposers must be informed of this decision.

--The individual levels of management may accept counterplans up to the time limit for their central bodies to submit draft plans to the appropriate planning commission. If, however, the VHJ /economic production unit/ or central body at least guarantees the goals of the 5-year plan (guidelines) in its draft plan and accepts further upgrading of the prescribed goals within the deadline for submitting drafts of the state executive plan to the appropriate government, any increased monetary incentive is also applicable insofar as it is linked to acceptance of the counterplan. All proposals for upgrading tasks which do not meet the conditions thus stipulated will be considered as exceeding the plan and given lower monetary preference.

--Insofar as acceptance of the counterplan may depend on higher requirements for available materials, current directives for negotiating supplier-consumer contracts will apply. If, however, agreement cannot be reached on the level of either the organization or the VHJ, the increased task cannot be included in the year's draft plan.

Monetary Incentives and Counterplanning

Monetary incentives provided for the assumption of more advanced goals proceed from orientation of the planning process toward quality aspects of development, increased efficiency, better usefulness of production, its technological level, etc. The relationship between key indicators and instruments of monetary stimulation in case of upgraded tasks and also failure to meet the tasks of the 5-year plan (guidelines) in the yearly draft plan is of a binding nature for VHJ's and organizations and can be expressed concisely as follows:

--Increased key indicators for basic components of wages payable (ZSMP--as a rule, adjusted value added) are directly projected as a proportionate increase; in case of failure to meet the specified indicator value the amount of the basic component of wages payable is duly reduced proportionately.

--On assuming a higher level of key indicators for the incentive wage factor (PSMP), its amount will grow directly in proportion to the percentage increase in value of the key indicator. On assuming a lower value the amount of the incentive wage factor is progressively reduced as follows: any period of up to 3 percent nonfulfillment of the indicator results in a reduction in the ratio of 1:1; in a period of 3 to 6 percent, the ratio is 1:2, and in a period of 6 to 15 percent, 1:10. Any lower degree of fulfillment results in forfeiture of the claim for incentive wages.

--Assuming a higher objective in the growth of labor productivity by reducing the number of workers will not result in any reduction of mandatory limits (norms) of wages payable.

--On assuming a higher amount of profit in the draft plan the increased amount of profit triggers a preferential norm for creation of the development fund which is computed by increasing the basic norm by a maximum of 50 percent (the percentage is determined by the appropriate central body). The calculation depends, however, on meeting specified conditional indicators of the 5-year plan (guidelines). If they are not met there will be a further reduction. Failure to meet designated goals is projected in the curtailment of norms for forming the development fund to the extent that 80 percent fulfillment of tasks for creating profits annuls the proposed allocation.

--Assuming a higher average yearly increase in exports is reflected in increased monetary stimulation for exports computed by means of a preferential coefficient.

--In assuming more demanding tasks senior officials of industrial enterprises also participate in the incentive system and their annual remuneration can be increased 5 to 10 percent on the basis of adoption of counterplans.

The fact that adopting a demanding plan is more advantageous than exceeding the plan reflects an attempt to create the kind of mechanism that would stimulate organizations to accept and carry out upgraded tasks and at the same time temper the speculative approach to plan formation. We must reject the idea that a disproportionate reduction of monetary incentive results in case of plan nonfulfillment should a component of the final plan also become the counterplan of the organization. A progressive reduction can come about only if the plan fulfillment falls below the value of the indicators specified in the 5-year plan (guidelines).

The fact that an organization gains advantage by adopting upgraded tasks and if its draft plan includes tasks of higher quality (or even quantity) is also confirmed by the principle whereby, on the assumption of meeting at least prescribed goals and their subsequent increase by higher bodies (up to the time the state plan is determined by the government), the increase is also considered to be an input of initiative by the organization and as such is also materially rewarded. The principle is further underscored by the mechanism of forming funds for monetary incentives which apply when planned tasks are exceeded. A supplementary mechanism based on computing the amount of monetary incentive funds by means of coefficients differentiated according to the individual branches (departments), and generally less than 1, then results in this order of preference: most advantageous is adopting and fulfilling an upgraded plan, less advantageous (but still beneficial) is exceeding specified goals, and nonfulfillment of the plan is penalized.

Regulations on incentives are based on highly compounded categories, i.e., on adjusted value added (UVV), return on production assets (RVF), profit and exports. These categories characterize the results of the work of the whole organization, all units, collectives and individuals. Therefore, it does not suffice for organization subdivisions to orient the workers' initiative to

these highly compounded indicators. The first task of industrial management, together with subdivision units and in close cooperation with trade union bodies, is to develop a generally motivational linkage of individual factors which influences the value of given compounded indicators and together with them then establishes the specific rules of motivation. Wherever certain conditions are required it is necessary to apply them, even to individual workers. Only rules developed this way for counterplanning by enterprise subdivisions can do justice to the contributions of workers for overall upgrading of the goals of the whole enterprise.

Implementation of Counterplanning in Connection with Preparation of Plans for 1981 to 1984

Counterplanning implementation must be viewed in the context of the whole Set of Measures. To be effective, therefore, it is necessary to develop certain essential basic conditions, which are:

- the existence and stability of the 5-year plan based on the particular and actual conditions of the economy;
- the prospects and stability of the rules and instruments of monetary incentives based on khozaschet principles;
- the development and application of khozaschet principles under specific conditions and linkage to socialist competition;
- giving workers timely information about planned objectives;
- establishing the kind of direct controls that will not work against the khozaschet principles and thus also counterplanning.

From these conditions there issues the task of the 5-year plan as the starting base for adoption of counterplanning. The goals of the economic plans are necessarily based on the 5-year national economic plan partly by stipulating specific tasks and partly by limiting factors. In addition, there are other economic instruments of indirect control emanating from the plan. On the level of central bodies there are, for example, norms and limits of various components of wages payable, economic conditions for planning and the application of fixed-limit investments, etc.

In 1981 the method of counterplanning did not essentially influence the formation of the draft plans, even though the regulations were known at the time of plan preparation; the total mechanism for implementing counterplanning, however, was developed only in the first half of 1981. Consequently, few organizations tried to apply it in practice.

The industrial enterprise sphere became more active in the formulation of draft plans only in the succeeding years of the Seventh 5-Year Plan. This is also shown by total results of utilizing counterplanning in draft plans of VHI's, in the department of the CSR Ministry of Industry, the CSR Ministry of Construction and VHI's in the branch of the food processing industry of the CSR Ministry of Agriculture and Food, which is shown in Tables 1 and 2.

Table 1
Implementation of Counterplanning in VHJ Draft Plans

Central body	No of VHJ's		No of VHJ's in counterplanning*				Increased UVV (mil. of Kcs)		Increased profit (mil. of Kcs)	
	1982	1983	1982	1983	1984	1984	1982**	1983	1982	1984
CSR Min of Industry	21	21	14	15	18	315.0	147.5	177.0	66.0	196.0
CSR Min. of Construct.	13	14	11	4	8	96.3	589.0	54.4	95.0	10.0
CSR Min. of Agr. & Food-Food Proces. Industry	14	14	9	8	10	353.5***	28.0	23.8	9.4	255.9

*The table includes all VHJ's which participated in counterplanning in counterplanning in at least one area except exports.

**Changes in conditions, especially in external relations, precluded use of counterplanning results.

***Increased UVV in the food processing industry was the result of exceeding targets, especially in the dairy industry (great excess of milk deliveries), breweries and malt houses and in chocolate factories.

Table 2
Structure of Adopted Counterplans

<u>Central body</u>	<u>Increased UVV</u>			<u>No of VHJ's with accepted counterplans</u>			<u>Upgrading of RVF /return on produc-tion assets/</u>			<u>Increased profit formation</u>			<u>Reduction in no of workers</u>		
	1982	1983	1984	1982	1983	1984	1982	1983	1984	1982	1983	1984	1982	1983	1984
CSR Min. of Industry	9	7	9	7	9	8	6	9	7	3	10	10			
CSR Min. of Construct.	5	3	5	5	3	3	4	3	2	7	1	3			
CSR Min. of Agr. & Food-Food Proces. Industry	8	5	9	7	6	9	4	4	9	3	2	2			

The fact that counterplanning is gradually penetrating into the specific operations of organizations and VHJ's is also attested to by the extent of fulfillment of tasks prescribed by the 5-year plan (guidelines)--see Table 3. The greatest problems for VHJ's are meeting objectives for creation of profit and in consequence of the high "weight" assigned to returns on production assets.

A number of factors influenced application of counterplanning. Their effects are associated with formation of the draftplans for 1982, 1983 and 1984.

Table 3
Fulfillment of Tasks Prescribed by 5-Year Plans (Guidelines)
of Total Draft Plans of VHJ's

<u>Prescribed indicatros met (in percentages)</u>									
<u>Central body</u>	<u>UVV</u>			<u>Profit</u>			<u>No of workers</u>		
	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
CSR Min. of Industry	99.92	99.88	98.43	98.65	99.28	95.65	100.38	99.97	99.63
CSR Min. of Construct.	94.59	99.14	98.98	79.87	91.74	91.39	99.53	100.09	100.17
CSR Min. of Agr. & Food-Food Proces. Industry	99.69	96.19	99.05	93.21	86.86	91.75	99.99	100.09	100.99

The following evaluations of draft plans of VHJ's within the jurisdiction of the CSR Ministry of Industry and the CSR Ministry of Construction and VHJ's in the branch of the food processing industry of the CSR Ministry of Agriculture and Food are made on the basis of strict adherence to the rules of counterplanning in the area of monetary incentives so that they will show not only the contributions of counterplanning but also the monetary penalties resulting from consistent application of established principles.

The formation of draft plans for 1982 was related to the guidelines for preparing plans for 1982. Thus the requirement for counterplanning was not met, that is, the preparation of the year's draft plan on the basis of objectives and conditions set forth in the 5-year plan. The result of this provision was the fear that any counterplan might become the basis for formulating the 5-year plan. Another factor which influenced formation of draft plans was the change in economic conditions, especially in the area of external economic relations, which affected the extent as well as the substantive direction of final plan objectives to such a degree that draft plans submitted could be used only to a small extent.

So that this change would not influence the approach of organizations in implementing counterplanning in the remaining years of the 5-year plan, the acceptance of upgraded tasks for 1982 was, by exception, extended, along with the applicable rules of monetary incentives, up to the time that economic plans were confirmed by higher management levels.

Measurements of VHJ draft plans in selected ministries is given in Tables 4 to 6.

Table 4
Evaluation of VHJ Draft Plans in the CSR Ministry of Industry, 1982

<u>Indicator</u>	<u>VHJ's with accepted counterplans</u>		<u>VHJ's failing to meet prescribed goals</u>	
	<u>No of VHJ's</u>	<u>Increase</u>	<u>No of VHJ's</u>	<u>Decrease</u>
UVV (mil. of Kcs)	9	147.5	6	184.8
Profit (mil. of Kcs)	6	66.0	8	289.0
RVE/return on prod. assets/(percentage)	7	0.16-11.62	11	0.70-23.51
No of Workers	3	51.0*	14	2124**
ZSMP/basic compon. of wages payable/ (mil. of Kcs)	--	54.0	--	62.9
PSMP/incentive wage factor/(mil. Kcs)	--	18.4	--	266.7
Average Wage (Kcs)	--	1-57	--	2-138
Allocation from Profits to FR /development fund/ (mil. of Kcs)	--	9.2	--	92.0

*Decrease

**Increase

Note: The goals prescribed in the guidelines for the state plan were met for UVV in the ministry as a whole, in spite of the fact that the draft plan and the VHJ's did not meet the objectives prescribed by the ministry.

Table 5
Evaluation of VHJ Draft Plans of the CSR Ministry of Construction, 1982

<u>Indicator</u>	<u>VHJ's with accepted counterplans</u>		<u>VHJ's failing to meet prescribed goals</u>	
	<u>No of VHJ's</u>	<u>Increase</u>	<u>No of VHJ's</u>	<u>Decrease</u>
UVV (mil. of Kcs)	5	589.0	6	1807.0
Profit (mil. of Kcs)	4	95.0	7	1046.0
PVF (percentage)	5	1.96-378.13	8	1.60-69.70
No of Workers	7	1240*	0	0**
ZSMP (mil. of Kcs)	-	237.8	-	681.8
PSMP (mil. of Kcs)	-	293.0	-	857.7
Average Wage (Kcs)	-	3-1672	-	15-626
Allocation From Profits to FR (mil. of Kcs)	-	1.6	-	166.1

*Decrease

**Increase

Note: The VHJ's in the branch of construction production deviated markedly from the guidelines. Only three VHJ's formed development funds. Two VHJ's definitely failed to meet the profit goal and consequently should have lost any claim to an allocation from profits to the development fund.

Table 6
Evaluation of VHJ Draft Plans in the Food Processing Industry Branch of the
CSR Ministry of Agriculture and Food, 1982

<u>Indicator</u>	<u>VHJ's with accepted counterplans</u>		<u>VHJ's failing to meet prescribed goals</u>	
	<u>No of VHJ's</u>	<u>Increase</u>	<u>No of VHJ's</u>	<u>Decrease</u>
UVV (mil. of Kcs)	8	28.0	3	98.1
Profit (mil. of Kcs)	4	9.4	7	295.2
PVF (percentage)	7	1.34-15.27	3	196-10.61
No of Workers	3	26*	0	0**
ZSMP (mil. of Kcs)	-	7.6	-	23.1
PSMP (mil. of Kcs)	-	8.5	-	60.9
Average Wage (Kcs)	-	34-102	-	24-476
Allocation From Profits to FR (mil. of Kcs)	-	2.0	-	235.3

*Decrease

**Increase

The following conclusions are drawn from the figures on VHJ draft plans for 1982 given above:

--In spite of the fact that many VHJ's observed the principles of counterplanning, input from the upgrading of prescribed goals, with the exception of the CSR Ministry of Industry, was not reflected in meeting the objectives of guidelines prescribed on the level of the state plan.

--The rules for counterplanning were observed only when the guideline goals were exceeded. A reduction in monetary incentive pay which resulted from non-fulfillment of prescribed goals occurred only in exceptional cases when there was only a moderate shortfall. In other cases, the individual VHJ's proposed using their own standards (amounts) of monetary incentives in order to assure a minimal growth, at least, in wages and assets for financing fixed-limit investments.

Approval of the Seventh 5-Year Plan had a marked influence on the formulation of the draft plans for 1982. In addition, it was decided to encourage savings in the number of workers the same way both in preparation of the plan and in its execution. At the same time, the number of workers since 1983 was used as a guideline. This was reflected in a number of adopted counterplans in the area of savings in the workforce during preparation of plans for 1983.

Extension of the time limit for accepting counterplans in 1982 was reflected both in a lower number and quality of accepted counterplans in 1983 and in growing pressure for a general extension of the counterplanning stage up until the time for confirming draft plans.

Evaluation of the draft plans for 1983 is given in Tables 7 to 9.

Table 7
Measurements of VHJ Draft Plans in the CSR Ministry of Industry, 1983

<u>Indicator</u>	<u>VHJ's with accepted counterplans</u>		<u>VHJ's failing to meet prescribed goals</u>	
	<u>No of VHJ's</u>	<u>Increase</u>	<u>No of VHJ's</u>	<u>Decrease</u>
UVV (mil. of Kcs)	7	177.0	7	269.0
Profit (mil. of Kcs)	99	123.0	6	254.0
RVF (percentage)	9	0.19-3.70	9	0.58-13.72
No of Workers	10	617*	8	471**
ZSMP (mil. of Kcs)	-	37.9	-	.
PSMP (mil. of Kcs)	-	23.3	-	.
Average Wage (Kcs)	-	20-73	-	.
Allocation from Profits to FR (mil. of Kcs)	-	36.6	-	.

*Decrease

**Increase

Note: Reduction in amounts of ZSMP, PSMP, average wages and allocation from profits to development funds cannot be ascertained from the draft plans because VHJ's which did not meet their goals proposed their own standards (limits) for monetary incentives which did not meet prescribed principles.

Table 8
Measurements of VHJ Draft Plans in the CSR Ministry of Construction 1983

<u>Indicator</u>	<u>VHJ's with accepted counterplans</u>		<u>VHJ's failing to meet prescribed goals</u>	
	<u>No of VHJ's</u>	<u>Increase</u>	<u>No of VHJ's</u>	<u>Decrease</u>
UVV (mil. of Kcs)	3	54.4	6	234.0
Profit (mil. of Kcs)	3	17.3	10	406.0
RVF (percentage)	3	0.55-5.70	8	3.11-54.20
No of Workers	1	72*	5	336**
ZSMP (mil. of Kcs)	-	20.4	-	89.8
PSMP (mil. of Kcs)	-	7.7	-	683.8
Average Wage (Kcs)	-	19-53	-	17-561
Allocation from Profits to FR (mil. of Kcs)	-	.	-	.

*Decrease

**Increase

Note: Planned allocations from profits to developments funds were not in available data.

Table 9
Measurements of VHJ Draft Plans in the Food Processing Industry Branch of the
CSR Ministry of Agriculture and- 6od, 1983

<u>Indicator</u>	<u>VHJ's with accepted counterplans</u>		<u>VHJ's failing to meet prescribed goals</u>	
	<u>No of VHJ's</u>	<u>Increase</u>	<u>No of VHJ's</u>	<u>Decrease</u>
UVV (mil. of Kcs)	5	23.8	5	473.7
Profit (mil. of Kcs)	4	7.8	6	539.7
RVF (percentage)	6	0.55-4.66	5	4.56-45.03
No of Workers	2	140*	7	260**
ZSMP (mil. of Kcs)	-	7.0	-	123.4
PSMP (mil. of Kcs)	-	5.7	-	259.7
Average Wage (Kcs)	-	2-68	-	3-790
Allocation from Profits to FR (mil. of Kcs)	-	1.4	-	153.2

*Decrease

**Increase

The following conclusions are based on evaluation of VHJ draft plans for 1983:

--Once again, the rules for monetary incentives were disregarded. Therefore, during the period of developing the state executive plan for 1983, all central bodies and VHJ's were informed of their obligation in developing plans to follow consistently the standards and coefficient formulas based on the 5-year plan (guidelines) and the degree of fulfillment of key indicators in draft plans. This procedure did not have to be followed except in case that, on the level of the state plan, prescribed goals of the 5-year plan (guidelines) were re-evaluated and increased amounts for funding monetary incentives were included in the state plan. Unused resources for monetary stimulation could be used to limit the effect of the progressive reduction of incentive wage factors but not to change (weaken) prescribed norms of monetary stimulation.

--The change in the method of monetary motivation for cutting the number of workers had an unfavorable effect on this area of counterplanning.

--A considerable number of draft counterplans were based on higher demands for material resources or imports above the prescribed limit.

--The counterplan drafts were balanced by marked nonfulfillment of goals and indicators by other VHJ's.

Formation of the draft plans for 1984 was guided by generally applicable regulations, which means that the goals prescribed for 1984 in the 5-year plan formed the basis for accepting counterplans and the time limit for accepting them was the time limit for submitting draft plans by the central body to the planning commission.

Measurements of VHJ Draft Plans for 1984 are shown in Tables 10 to 12.

Table 10
Measurements of VHJ Draft Plans of the CSR Ministry of Industry, 1984

<u>Indicator</u>	<u>VHJ's with accepted counterplans</u>		<u>VHJ's failing to meet prescribed goals</u>	
	<u>No of VHJ's</u>	<u>Increase</u>	<u>No of VHJ's</u>	<u>Decrease</u>
UVV (mil. of Kcs)	9	315.0	12	1118.0
Profit (mil. of Kcs)	7	196.0	13	1090.4
RVF (percentage)	8	0.88-18.23	13	0.30-19.76
No of Workers	10	2984*	10	944**
ZSMP (mil. of Kcs)	-	78.8	-	316.2
PSMP (mil. of Kcs)	-	37.7	-	1234.9
Average Wage (Kcs)	-	1-203	-	8-647
Allocation from Profits to FR (mil. of Kcs)	-	55.9	-	972.3

*Decrease **Increase

Table 11
Measurements of VHJ Draft Plans of the CSR Ministry of Construction, 1984

<u>Indicator</u>	<u>VHJ's with accepted + counterplans</u>		<u>VHJ's failing to meet prescribed goals</u>	
	<u>No of VHJ's</u>	<u>Increase</u>	<u>No of VHJ's</u>	<u>Decrease</u>
UVV (mil. of Kcs)	5	96.3	7	300.9
Profit (mil. of Kcs)	2	10.0	9	423.2
RVF (percentage)	3	1.45-3.72	9	3.52-57.55
No of Workers	3	340*	4	765**
ZSMP (mil. of Kcs)	-	42.8	-	107.8
PSMP (mil. of Kcs)	-	9.1	-	219.2
Average Wage (Kcs)	-	3-42	-	102-695
Allocation from Profits to FR (mil. of Kcs)	-	1.6	-	45.6

*Decrease **Increase

Note: In certain VHJ's an experimental testing of single-component regulations is under way in connection with modified adjusted value added. Consequently, it was not possible to ascertain the value of the UVV prescribed in formulating the 5-year plan (guidelines) and their value has been estimated. This simplification may, of course, result in numerical inaccuracy but in no case does it distort the approach of individual VHJ's in the formation of draft plans.

Table 12
Measurements of VHJ Draft Plans in the Food Processing Industry Branch of the
CSR Ministry of Agriculture and Food, 1984

<u>Indicator</u>	<u>VHJ's with accepted counterplans</u>		<u>VHJ's failing to meet prescribed goals</u>	
	<u>No of VHJ's</u>	<u>Increase</u>	<u>No of VHJ's</u>	<u>Decrease</u>
UVV (mil. of Kcs)	9	353.5	5	466.2
Profit (mil. of Kcs)	9	255.9	5	575.6
RVF (percentage)	9	3.64-23.88	5	13.21-101.04
No of Workers	2	52*	10	1339**
ZSMP (mil. of Kcs)	-	96.6	-	137.0
PSMP (mil. of Kcs)	-	71.4	-	395.3
Average Wage (Kcs)	-	57-286	-	483-1142
Allocation from Profits to FR (mil. of Kcs)	-	48.4	-	183.9

*Decrease

**Increase

On the basis of the measurements of draft plans submitted by VHJ's these general conclusions can be made:

--In spite of the fact that in plan preparation for 1984 the amount of counterplan input grew substantially, the results were not reflected in expected fulfillment of the goals of the 5-year plan in all of the VHJ's.

--The rules for monetary incentives were not observed as in past years. This was most evident in the area of development funds (or investment funds). Here the approach based on the need for investing was given full play and the planned level of generating internal resources was given second place.

--A large number of draft counterplans is based on demands for increased resources (investment, imports).

--Counterplanning is still not understood as a permanent way of finding unused resources. In many VHJ's and organizations it is only of interest to special management units. Consequently, unused resources are found only during execution of the plan and not during its preparation.

--Another reason for relatively little use of counterplanning is inadequate knowledge of the possibilities in carrying out its principles which are based on various methods of developing the rules of counterplanning as a part of enterprise subdivision khozraschet and a method of remuneration within the individual organizations.

During the 4-year period that the principles of counterplanning have been applied it can be stated that their specific utilization is greatly differentiated. On the one hand, there are VHJ's which use counterplanning every year, whereas on the other many VHJ's have not once adopted upgrading of prescribed goals.

Implementation of the Principles of Counterplanning During the Stage of Plan Formation for 1985

The importance of counterplanning rests primarily on involving the broadest possible spectrum of workers in the plan formation. That is why its implementation was one of the questions discussed at the joint plenum of the CSSR Government Presidium and the presidium of the URO [Central Trade Union Council]. The meeting indicated the necessity of further intensifying implementation of the method of counterplanning, especially in the stage of formulating draft plans for 1985.

In order to ensure broader application of the principles of counterplanning, it will be essential, therefore, to create conditions which will make possible the broadest participation of workers in the planning process. Key factors will be:

--how the VHJ's and enterprises in close cooperation with trade union bodies will succeed in developing tasks and indicators of the Seventh 5-Year Plan for 1985 at individual work centers and discuss them with workers with sufficient lead time;

--how the rules of counterplanning will be dealt with in the organizations as a part of enterprise subdivision khozraschet;

--how the working collectives will be informed about suggestions for possible use in counterplanning in their working circumstances.

The method of discussing application of the principles of counterplanning in the various organizations must be fully in accord with the time schedule for generating the draft plans. The deadlines for their submission for 1985 are as follows:

--organizations by 4 June 1984;

--intermediate level management bodies by 2 July 1984;

--central bodies by 1 August 1984.

The final date for submitting draft counterplans for 1985 is 2 July 1984. After this date additional upgrading of prescribed goals may be proposed only by those VHJ's and central bodies which in their draft plans provided at least for the tasks prescribed by the 5-year plan for 1985.

In the course of the Seventh 5-Year Plan counterplanning has become an important component of the management operations of certain organizations, which was reflected especially by higher participation of their workers in management. At the same time, however, it was shown that implementing this method of forming draft plans closely depends on skillful development of the rules of counterplanning based on the specific conditions of the given organization and working closely with the enterprise subdivision khozraschet. At the same time, it is imperative constantly to update the rules of counterplanning in view of newly-emerging requirements so that they will reflect the changing conditions and objectives of industrial operations.

MAY 1984 ECONOMIC RESULTS SUMMARIZED

Prague HOSPODARSKE NOVINY in Czech 29 Jun 84 p 2

[Commentary by Engineers Marie Hormannova and Alena Polakova, Federal Statistical Office: "May 1984"]

[Text] For a broader evaluation of the overall results, particularly of the growth rate¹ of the production of resources in May, one must bear in mind that this month the available working time was longer by one workday than last year. (During the first five months of this year, there were two extra workdays as compared with the same period last year.) But even so the average daily industrial output rose at a faster rate than what the state plan specifies. The procurement of farm products was fulfilled smoothly. In construction, however, the average daily output was lower than in May of last year. Export to both socialist and nonsocialist countries developed favorably, and also the retail turnover rose faster than anticipated.

The period from January through May accounts for 41.5 percent of the annual available working time. During the same period, fulfillment of the annual planned tasks was as follows: volume of industrial production, 42.2 percent; volume of construction work that the construction enterprises performed with their own personnel, 38.7 percent; procurement of slaughter animals (including slaughter poultry), 44.1 percent; total import, 36.0 percent; total export, 39.0 percent; and total freight hauled, 40.3 percent.

The fairly considerable rise of industrial production in May (7.4 percent as compared with 3.6 percent in May of last year) contributed significantly toward accelerating the growth of industrial production in January-May: its index was 104.8 over the same period last year. The average daily output rose by 3.3 percent during the first five months of this year. During the same period, adjusted value added² rose by 5.8 percent.

¹Growth rates are calculated over the same period of 1983. Pursuant to the Federal Government's Decree No 120/1984, the federal plan (less the goal-oriented programs' effect) is adjusted for the actual 1983 results. Gross industrial production, and the volume of construction work that the construction enterprises performed with their own personnel (ZSV [basic output of construction]) are, respectively, informative and reference indicators of the state plan.

²For May, enterprise estimates.

Basic Indicators of National Economy's Development in May 1984.
Increases Over Comparable 1983 Period (in percent)

	<u>May</u>	<u>Jan- May</u>	<u>State plan¹</u>
Centrally Administered Industries deliveries for:			
- investments, at wholesale prices	.	6.0	.
- domestic trade			
at wholesale prices	.	3.9	.
at retail prices	.	3.8	1.9
- export to socialist countries			
at wholesale prices	.	10.1	.
at f.o.b. prices	.	12.4	.
- export to nonsocialist countries			
at wholesale prices	.	10.2	.
at f.o.b. prices	.	11.0	.
- other sales for productive consumption and operations, at wholesale prices	.	3.5	.
volume of industrial production	7.4	4.8	2.5
average number of employees	0.8	0.7	0.8
labor productivity based on industrial output	6.5	4.1	2.1
Construction			
construction work performed with own personnel	3.4	2.7	0.8
average number of employees	0.4	0.3	0.9
labor productivity on construction's basic output	2.9	2.4	-0.2
housing units delivered by contracting enterprises	-10.6	16.8	-4.9
Procurement			
slaughter animals (including poultry)	9.3	7.0	-2.1
milk	1.0	4.3	-4.7
eggs	5.4	5.7	-3.9
Retail Turnover			
main trade systems	3.8	3.2	1.7 ²
Foreign Trade ³			
export to socialist countries	.	15.6	6.1
export to nonsocialist countries	.	14.7	1.3
import from socialist countries	.	18.8	9.5
import from nonsocialist countries	.	1.6	9.0
Personal Money Income	1.4	2.5	1.8
of which income from wages	0.6	2.5	1.2

Cash Expenditures (w/o net increase in savings deposits) 0.6 3.8 2.0

1. Adjusted federal plan approved by Government Decree No 120/84 (less the goal-oriented programs' effect); plan is adjusted for actual 1983 results, with the exception of labor indicators in industry.
2. All trade systems
3. Data on actual results refer to total transactions. The state plan (unlike total transactions) does not include unplanned transactions within co-operation, unplanned reexport, swaps, tie-in sales, etc. At f.o.b. border prices including VRCV [exchange rate adjustment factor], according to 1984 plan's methods (pursuant to the Federal Government's Decree No 268/83).

Fulfillment of the industrial production volume's economic plan was 100.8 percent, even though 252 of the industrial enterprises (29.4 percent of their total number) had been unable to fully cope with their January-May production tasks. Fulfillment of the economic plan for adjusted value added was 101.4 percent from the beginning of the year, even though estimates show that 321 of the enterprises fell short of fulfilling this indicator.

Parallel with the fulfillment of the economic plans, the greatest gains in production since the beginning of the year have been in the electrotechnical industry, the pulp and paper industry, and the rubber industry.

The gains in industrial production and in adjusted value added stem primarily from higher labor productivity. Labor productivity based on gross output rose from January through May by 4.1 percent. Labor productivity based on adjusted value added rose by 5.1 percent.

Within sales of industrial production during the first five months of this year, there was a pronounced increase of deliveries for export to both socialist and nonsocialist countries, at wholesale and f.o.b. prices as well. The economic plans for January through May were overfulfilled for all principal sales destinations. However, more than a quarter of the enterprises fell short in their deliveries for the domestic market; roughly a fifth of the enterprises fell short in their deliveries for export to socialist countries; and nearly a quarter of the enterprises fell short in their deliveries for export to nonsocialist countries.

In the first five months of this year, the construction enterprises performed with their own personnel 36.3 billion korunas' worth of construction work, which is 2.7 percent more than during the same period of last year. The average daily output rose by 0.8 percent, which is in accord with the increase that the 1984 state plan anticipates for the entire year. Adjusted value added for January through May (May figures based on enterprise estimates) increased by 1.9 percent.

While the economic plans for the volume of construction work were fulfilled overall, 125 of the construction enterprises (more than half of the total number) failed to fulfill their tasks. Although the economic plans for adjusted value added were exceeded overall, 81 of the construction enterprises fell short of fulfilling their economic plans. Especially the completion of construction projects is lagging.

In comparison with the same period last year, during January through May of this year there was a 2.4-percent rise of labor productivity based on the volume of work that the construction enterprises performed with their own personnel; labor productivity based on adjusted value added in construction rose by 1.7 percent during the same period.

In housing construction, contractors delivered 12,888 housing units from January through May, 16.8 percent more than in the same period last year.

In agriculture, the schedule for the procurement of basic livestock products was overfulfilled during the first five months of this year. Fulfillment was

102.2 percent for slaughter animals, 100.5 percent for slaughter poultry, 104.2 percent for milk, and 107.2 percent for eggs. The increases in procurement this year, over the same period last year, were 58,000 tons of slaughter animals (including slaughter poultry), 97.6 million liters of milk and 68.3 million eggs.

Freight hauled by public transport increased by 0.3 percent in May, but dropped by 0.2 percent from the beginning of the year over January through May of last year. Thus freight transportation developed more slowly than the production of material resources. The freight transportation plan for January through May was fulfilled 99.7 percent; this includes 101.0 percent fulfillment in rail freight, 98.5 percent in trucking by the CSAD [Czechoslovak Motor Transportation Enterprise], and 103.5 percent in inland navigation. In all, 268 million tons of freight was hauled during the first five months.

In foreign trade (at prices f.o.b. border) export rose faster than import during the five months. At the same time, export to socialist countries (115.6 percent) rose faster than to nonsocialist countries (114.7 percent). By the end of May, the annual export plan was fulfilled 40.3 percent to socialist countries and 37.9 percent to nonsocialist countries. Import in January through May rose by 11 percent over the same period last year. Import from both socialist and nonsocialist countries rose.

The retail turnover of the main trade systems was 3.8 percent higher in May than in May of last year. It was due particularly to increased sales by food stores, industrial goods stores, and department stores. Merchandise sales by the main trade systems totaled 91 billion korunas in January through May, 3.2 percent more than during the same period last year. The enterprise plans for the retail turnover's growth were exceeded by 1.3 percent during this period.

The growth rate of total personal money income and earned income in January through May was higher than what the annual state plan calls for.

Due to increased consumer spending, the currency in circulation dropped by 0.2 billion korunas in May. On the other hand, personal savings deposits showed a net increase of 12.5 billion korunas over a year ago, reaching a total of 198.4 billion korunas on 31 May.

1014
CSO: 2400/395

CZECHOSLOVAKIA

FIRST HALF 1984 ECONOMIC RESULTS SUMMARIZED

Prague HOSPODARSKE NOVINY in Czech 3 Aug 84 p 2

[Commentary by Engineer Vaclav Jezdik, Federal Statistical Office: "The First Half of 1984"]

[Text] The results of the Czechoslovak economy during the first half of 1984 confirm that we have succeeded, in accordance with the conclusions that the CPCZ Central Committee adopted at its 9th and 10th sessions, to tie in with and continue the favorable trends of last year.

The growth of the production of material resources and the rise in the efficiency of production are in accord with the intentions to step up the targets of the state plan. Over the same period of 1983, gross national income in the first half of 1984 increased by 3.2 percent. The growth rates of industrial production, construction, and procurement of livestock products from agriculture were higher than what the plan had anticipated. This provided the prerequisites for maintaining and further improving the population's standard of living. Personal consumption increased by 2.4 percent. Personal money incomes were up 2.7 percent and, within them, earned income was 2.8 percent higher. The average monthly wages of a worker in the socialist sector rose to 2,785 korunas or by 2 percent.

The retail turnover of all trade systems rose by 3.7 percent. Within this, the retail turnover in industrial goods rose faster, in agreement with the plan. Except for local shortages, food supply was even. In the case of industrial goods, deliveries of certain shortage items were increased. Although the overall level of supply improved, the consumers' demand was not always supplied, in the case of certain types of textiles, and clothing and footwear, for example.

The population's public consumption rose likewise. For example, 2.6 percent more was spent on total social insurance benefits alone than in the first half of last year. This includes 25.1 billion korunas for pensions, 14.9 billion for sickness insurance benefits, and 7.7 billion for children's allowances.

Despite the generally favorable results, in the national economy's development all the possibilities for further intensifying the production of resources, and for improving the economy's efficiency and the quality of work, were not fully utilized.

Basic Indicators of National Economy's Development in First Half of 1984.
Increases Over Comparable 1983 Period (in percent)

	<u>Jun</u>	<u>Jan- Jun</u>	<u>State plan¹</u>
Centrally Administered Industries deliveries for:			
- investments, at wholesale prices	.	8.0	.
- domestic trade			
at wholesale prices	.	3.2	.
at retail prices	.	3.1	1.9
- export to socialist countries			
at wholesale prices	.	8.3	.
at f.o.b. prices	.	10.8	.
- export to nonsocialist countries			
at wholesale prices	.	8.1	.
at f.o.b. prices	.	8.3	.
- other sales for productive consumption and operations, at wholesale prices	.	3.1	.
volume of industrial production	0.2	4.1	2.5
average number of employees	0.7	0.7	0.8
labor productivity based on industrial output	-0.5	3.4	2.1
Construction			
construction work performed with own personnel	0.9	2.1	0.8
average number of employees	0.7	0.3	0.9
labor productivity on construction's basic output	0.2	1.7	-0.2
housing units delivered by contracting enterprises	3.9	9.9	-4.9
Procurement			
slaughter animals (including poultry)	1.0	5.9	-2.1
milk	3.0	4.1	-4.7
eggs	-1.7	4.4	-3.9
Retail Turnover			
main trade systems	2.4	3.1	1.2
Foreign Trade ²			
export to socialist countries	.	13.7	6.1
export to nonsocialist countries	.	8.4	1.3
import from socialist countries	.	15.9	9.5
import from nonsocialist countries	.	2.5	9.0
Personal Money Income	3.4	2.7	1.8
of which income from wages	4.3	2.8	1.2
Personal consumption expenditures	0.6	3.8	2.0

1. Adjusted federal plan approved by Government Decree No 120/84 (less the goal-oriented programs' effect); plan is adjusted for actual 1983 results, with the exception of labor indicators in industry.
2. Data on actual results refer to total transactions. The state plan (unlike total transactions) does not include unplanned transactions within co-operation, unplanned reexport, swaps, tie-in sales, etc.

Industrial production was up 4.1 percent in the first half of 1984. The average daily industrial output increased by 3.4 percent, which is 0.9 percentage point more than what the plan anticipated. The planned volumes of adjusted value added were exceeded by 2.1 percent or 2.9 billion korunas. By the end of the first half, more than 50 percent was fulfilled of the planned annual production and adjusted value added. The development of production was differentiated in the individual branches, in agreement with the plan. Above-average production gains were achieved in the electrotechnical industry, general engineering, the pulp and paper industry, and the medical products and equipment industry. The total sales of centrally administered industry were up 5.4 percent, and the planned tasks were exceeded to all principal sales destinations. In deliveries for the domestic market, the individual ministries successfully fulfilled also their targeted tasks. The results in the development of costs and profitability were better than had been planned. The proportion of total costs in relation to output dropped by 0.7 percentage point (the plan called for a drop of 0.5 percentage point). Within this the proportion of material costs, not including depreciation, dropped by 0.9 percentage point.

At a 0.7-percent rise in employment, labor productivity based on gross output increased by 3.4 percent; and based on adjusted value added, by 4.4 percent.

There were considerable differences among the industrial enterprises in terms of the fulfillment of their planned tasks. Of the total number of enterprises, 16.1 percent failed to fulfill their adjusted value added plan. Their shortfall amounts to 1.1 billion korunas. Some of the enterprises fulfilled their tasks unevenly and incompletely, which affected primarily the continuity of deliveries for productive and nonproductive consumption.

In industrial production, the possibilities for the practical application of R & D results likewise remain unutilized, despite the results that were achieved in the first half of 1984.

In comparison with the first half of last year, the output in construction (measured in terms of the volume of construction work that the construction enterprises performed with their own personnel) was up 2.1 percent, and the attained growth rate was 1.3 percentage points higher than what the annual state plan anticipated. The construction enterprises exceeded by 1.1 percent the plan of adjusted value added. They fulfilled 48.3 percent of their annual planned tasks, which is roughly at last year's level.

At a 0.3-percent increase in employment, labor productivity based on construction work increased by 1.7 percent; and based on adjusted value added, by 0.4 percent.

Fulfillment of the planned tasks was differentiated considerably among the construction enterprises. The enterprises of the CSR Ministry of Construction exceeded the plan of construction work, while the construction enterprises of the SSR Ministry of Construction fulfilled the plan. In both the CSR and SSR, the okres construction enterprises fell short of their planned tasks. The efforts failed to make the fulfillment of the planned tasks in capital construction more even and to speed up the completion of the investment projects, including

the capacities specified as mandatory tasks of the state plan. However, above-average fulfillment was attained in the areas of concentrated capital construction.

In housing construction, 32,200 housing units were completed. Fulfillment of the national committees' annual housing construction plan was 35.8 percent. There are considerable differences among the krajs in terms of the annual plan's fulfillment.

In agriculture, the conditions were ensured for harvesting this year's crops properly and in due time, and the tasks in livestock production were overfulfilled. In view of the weather conditions at the beginning of this year, the proportion of crops that had to be plowed under was higher than last year, but it did not significantly exceed the average for the 6th Five-Year Plan.

In livestock production, regulation of the hog and poultry population continued, and so did the favorable trends in the development of livestock yields. The average daily milk yield per cow rose to 9.57 liters (as compared with 9.25 liters last year), and the average lay per hen also increased. Milk production was up 4.3 percent; and egg production, 4.7 percent. The average daily weight gains of cattle and hogs were higher, while the consumption of feed grain per unit of output dropped.

Unwarranted differences in the results of individual krajs, okreses and agricultural enterprises still remain a problem.

In accordance with the plan, transport supplied the transportation needs of the national economy. The economy's transportation-intensity declined, and the diversion of transportation from highway transport to the railroad continued.

Foreign trade, especially economic cooperation with the CEMA countries and the Soviet Union in particular, likewise contributed to the economy's favorable development. Mutual trade with the CEMA countries increased by 17 percent.

The total turnover of foreign trade in the first half of 1984 was higher than what the state plan had anticipated.

The workers' initiative--it manifested itself particularly in the intensification of socialist competition, in active participation in the implementation of rationalization measures, and in the invention and innovation movement--contributed significantly toward the achieved results. The practical implementation began of over 1,100 new inventions, and nearly 81,000 innovation proposals were carried out.

The economy's performance in the first half of 1984 provides favorable conditions for fulfilling the stepped-up tasks of the annual state plan. While maintaining the achieved rate of growth, it will be necessary to devote closer attention to the desired structure and quality of the output, to fulfill the planned tasks comprehensively and evenly, and simultaneously to continue the efforts to utilize inputs more efficiently, particularly the inputs of electricity, fuels and metals. Fulfillment of this year's tasks, with special attention to the utility value, quality and efficiency of the produced output, can ensure a good start into the last year of the 7th Five-Year Plan.

1014

CSO: 2400/411

CZECHOSLOVAKIA

PROCUREMENT OF GRAIN DESCRIBED

Prague SVET HOSPODARSTVI in Czech 17 Jul 84 p 2

/Article: "Assuring High-Quality Grain Supplies"/

/Excerpts/ The ZZN /Agricultural Supply and Purchasing Enterprise/ has a monopoly on the purchase, processing, and warehousing of grain. It purchases about 80 percent of the total estimated annual production of 11 million tons of grain, which it then dries, grades into human and animal feed grain, and stores in special, separate warehouses.

In addition to the successful and rapid fulfillment of the overall purchase plans, the ZZN is also supposed to assure satisfactory supplies of first-class grain for the food industry. This represents about 20 percent of the quantities purchased. This goal was overfulfilled last year with respect to edible wheat: 1,368,000 tons were purchased, with an average gluten content of 26.4 percent, as against the planned goal of 1,320,000 tons. The ZZN also exceeded the rye plan, purchasing 520,000 tons, exceeding the planned level of 360,000 tons. Purchases of malt barley were not so favorable. This plant yields almost 1 ton less than winter wheat, and agricultural enterprises are losing interest in its cultivation even in traditional growing areas. Preferential treatment would improve matters, particularly priority supplies of plant-protection materials. Production in recent years has also been hampered by drought, although the way the weather has been so far, it should not cause low output this year. Farmers are also planting less oats, as shown by the failure to meet purchase goals from last year's harvest. Grain growers, particularly in southern Moravia, should also devote more attention to so-called durum wheat, containing up to 40 percent gluten; this grain is necessary for the production of various pastas. It has been grown in the past by 10 agricultural enterprises, of which the Cejc Unified Agricultural Cooperative has dedicated the largest area--60 hectares. Great interest is being shown in pasta products, and their production requires 3,000 carloads of raw materials; so far we have been able to produce only 8,000 tons, however.

The ZZN is to purchase about 80,000 tons of grains more than last year for the state fund. The same quantity of wheat is to be purchased as last year, while 70,000 tons more barley are to be bought. Last year's planned purchase goal of 360,000 tons of rye and 22,000 tons of edible oats has not changed for this year. A slight increase in purchases of durum wheat from southern Moravia is planned.

In an effort to increase the speed and quality of grain collection and purchase after the harvest, the purchasing organizations have for several years been using so-called rational grain flow. In this method the harvested grain is taken from the field to temporary storage in warehouses near the growers. The ZZN contributes to their construction out of its integration fund. This reduces the work load at the receiving stations and laboratories and makes it possible to grade the grain more carefully for moisture and quality. There is also time for precise checking of the nitrogen content of the grain and its kernel texture. In addition, the need for transport to serve the grain combines is reduced and grain can be transported from the receiving stations to the ZZN Warehouses with high-capacity vehicles. Where this technique has been tried fuel savings have reached 30 to 40 percent.

Warehouse capacity has been increased in the past year by construction of new silos in Sakvice, Prostějov, and Krahulov. All the silos built recently, such as the one built in 1982 in Kilín with a capacity of 50,000 tons, have the most modern equipment for loading, unloading, drying, and ventilation. The nerve center of such a large-capacity silo is a control console which supervises temperature, humidity, and the general state of the stored grain. Even older warehouses are being modernized: for instance, active ventilation has been installed for a total of 199,000 tons of stored grain.

2641
CSO: 2400/403

CZECHOSLOVAKIA

WATER PLANTS MAY IMPROVE WATER QUALITY

Prague RUDE PRAVO in Czech 1 Aug 84 p 2

/Article: "Purifying Water by Photosynthesis"/

/Text/ Green plants are used directly or indirectly as food, we breathe the oxygen they produce, and we obtain a wide variety of raw materials, chemicals and medicines from them. They are also an enormously important factor in the formation of the environment.

The question of using photosynthesis to purify water has occupied the scientists at the Trebon Hydrobotany Department of the Botany Institute, Czechoslovak Academy of Sciences. The biological properties of plants could solve two urgent problems; they could sharply reduce water pollution and they could contribute to the fodder and energy base of our agriculture.

In the photosynthetic exploitation of the sun's energy, plants are able to make use of some of the nitrogen, phosphorus, and other elements which, in large concentrations, are one of the forms of chemical pollution. The water plant which best purifies water and produces valuable fodder in this country is duckweed /Lemna/, a small plant which floats on the surface of the water. When it is grown in water rich in nitrogen and phosphorus and then harvested, the dry matter contains up to 5 percent nitrogen, almost 1 percent phosphorus, and around 30 percent protein. In the Trebon region, for instance, in a single growing season duckweed produces up to 8 tons of dry material per hectare, and 2.4 tons of that is protein. Another plant with similar properties, which grows in swamps, is sweet-grass reed /Glyceria/. And water hyacinth /Eichhornia crassipes/, a tropical plant, would be suitable for purifying the warmer water from thermal electric power plants.

In view of the successful research results, the industrial planting of water plants for water purification is now the "dream of the future." But the attention and the financial resources being directed toward this problem throughout the world show that the use of plants for this purpose is recognized as being a realistic possibility.

2641

CSO: 2400/403

BARRIERS TO TECHNOLOGICAL DEVELOPMENT DISCUSSED

Prague PRAVDA in Slovak 8 Aug 84 p 5

[Article by Karol Stetina: "Barriers to Technological Development"]

[Text] Up to now, there has been experience confirming that there are almost insurmountable obstacles to technological development. To intensify economics, manufacturing enterprises keep taking the way of slight, ad hoc rationalization innovations. They are simple, require no unusual financing, materials, energy or labor. The results go predominantly into the pocket of the manufacturer. This would be all right, if that fact were the first step on the way to more serious technological or product innovations. However, such innovations stay in the background. These principal innovations make substantially heavier demands on the managing and organizing work, on safeguarding material, machine equipment and finances. This has been fully confirmed by proposals of single enterprises, VHJ's [economic production units] and departments for parameters of the Eighth Five-Year Plan, processed in the second half of last year. The attitudes toward such questions continue to show inertia known from the times of extensive development. There are growing demands of production, raw material and energy resources, while the talk about retiring from production processes is more modest. Somehow the established system of management has not been able to make enterprises, VHJ's and departments orient themselves toward intensifying innovative actions of either product or technology type. Even when there are such actions, they are kept as hidden reserves, usually not revealed before the process of the plan implementation.

Priority in Solving--Not in Rewarding

The inventors' and innovators' movement belongs to the most effective manifestations of scientific and technological development. Thoroughly revised and uniform criteria, as well as the smoothly running system of formation and implementation of new technological solutions, make inventors certain (furthermore, this certainty is supported by the law No 84/1972 of the Collection on discoveries, inventions, innovation proposals and industrial models) that they are entitled to adequate compensation for utilizing a technological solution. Presumably, it is not necessary to repeat that next

to moral appreciation, the material reward is the main stimulating element. Innovators get author's rewards for utilizing protected solutions, but also for initiative cooperation in testing, elaborating and implementing inventions and innovation proposals.

Strangely, that which holds in the sphere of the invention and innovation movement, does not hold at all in a far more important sphere, that is, in solving and implementing state tasks of science and technology development. According to the nomenclature there is no doubt that the "amendment of greatest benefits" should be valid here, but in reality it is exactly the other way round.

"It is indisputable that the tasks of the state plan for the development of science and technology are complex and exacting. As complex as the solution itself," proclaims Engineer Vaclav Vaindl, employee of the Research Institute for Engineering Technology and Economics in Prague. "Equally complex, if not more so, is the implementation of the solved tasks. Our institute took the initiative in solving the problems of integrated production sections and flexible production systems in engineering. Not to exaggerate, this is a hit in the field of machining technology. The whole working place is monitored by a hierarchy of computers with no human participation. Exactly the thing we have eyes for, and envy, too, let's admit it, when we watch it in a film shot of points of interest in the world of science and technology. Such a working place is able to increase productivity by up to 500 percent. Moreover, the machines may operate continuously in three shifts. I could go on enumerating other merits of this revolutionary technological innovation. To what use! Theoretically, the RVT [Development of Science and Technology] state task has been solved a long time ago, but from the aspect of its practical realization troubles kept piling up as if they were on an assembly line. When I was talking to the people responsible for the implementation of such a significant state task, with the cost of Kcs 1.5 billion in non-investment means, I found out that the team had managed to carry it to the end only because of the enthusiasm of their fans. I hate to even mention what kind of reward they got for their efforts--the individual reward for these top executors was Kcs 1,500!!! I was completely shocked to hear that.

"I can support my arguments by concrete experience which I had gathered when I still worked in the Office for Inventions and Discoveries in Prague. I am thoroughly familiar with the decree No 106/1972 of UVO [Office for Inventions and Discoveries] on the rewarding of inventions.... In real life this decree is safely winning over any priorities, state tasks not excluding. Basically, its orientation is unilateral. It puts greater emphasis on savings in retained costs, and it markedly prefers rationalization of production to production innovations of higher orders. And this fact should not be overlooked. Due to the mentioned decree, an innovator, even one of the 'Sunday' kind, earns by petty rationalization not only Kcs 1,500, but maybe even ten times more. Not to mention that he wouldn't touch even with a 10-foot pole such 'favorably' compensated drudgery which was delivered by top experts when implementing the mentioned RVT state task. This should be put to order," states Comrade Vaindl.

New Look at Social Benefit

Technological development is adversely affected by practicing disparity in the inventors' and innovators' compensation in comparison to that of people who solve and implement successfully the state plans of science and technology development. There are enough cases when a solution of a significant problem of top social priority is not in the center of attention of the RVT people, which, eventually, often slows down the origin and realization of innovations of higher orders.

Social benefit achieved by implementing inventions and innovation proposals (which is the basis for the determination of authors' rewards) usually consists of savings in retained cost, or of a producer's higher profit. The savings in retained cost attained by the manufacturer may not necessarily always be a social benefit as well. Moreover, in most cases the consumer experiences the effects of such improvement only slightly. At present, as socially effective innovations abroad are considered those in which 60 to 80 percent of the total achieved effect goes to the consumer, and 20 to 40 percent to the producer. So far, the research and development movement in this country, including that of inventions and innovation proposals, has been characterized by an exactly opposite ratio, where the major part of the innovation effect is gained by the producer, and only the minor one goes to the consumer. As yet we have not been able to overcome this wrong trend. Surely one of the reasons is the fact that practically no priorities can be applied to tasks of the RVT plans at various levels of management, e.g. state or enterprise levels. Many times the situation is of elemental nature. In the enterprise sphere we can come across interest in solving and implementing the kinds of RVT tasks that result in payment of high author's and implementation rewards to innovators. These again motivate them to implement their protected technical solutions. The question remains, however, whether in this way we gain an improved product with the desired social benefit, effecting favorably the consumer, the user. In the enterprise sphere the primary interest in improving the economic results of an enterprise keeps persisting.

On the other hand, the state plan tasks remain in the background, away from the interest of the enterprise sphere. Many times such tasks are not executed just because the implementation capacity is "exploited" by establishing some lesser rationalization measures, for which both their author and executor may expect a safe and legally appointed compensation.

Experience shows us that it is absolutely necessary to seriously contemplate the basic idea, namely, what is a social benefit and how a social priority is to be understood. It is high time that we stop chasing figures about the number of filed applications for inventions and innovation proposals. It is inevitable to direct the efforts of technically creative workers toward the implementation of RVT tasks of higher innovative orders. Of what use are the facts that last year in Slovakia there were created 1,948 inventions and filed 89,986 applications for innovation proposals, out of which 32 percent and 51 percent, respectively, were implemented? Refusal and non-implementation continue to be high, and with reason, attention should be drawn

to the question whether the implemented solutions really lead to a higher effectiveness in the export of our production. The total of all the present measures in the economic sphere is that our products make their way to, and be in demand at the challenging foreign markets. This is where our attention should be directed first of all.

As long as the single RVT plans are not mutually coordinated and safeguarded with resources, an outlet from this adverse situation can be only the activation of a broad circle of technically creative workers. However, they have to be told what the highest social priority is, what the social benefit is and where its local significance lies. The amendment of the decree No 106 of the Office for Inventions and Discoveries on rewarding inventions and innovation proposals, which is being prepared, should differentiate more distinctly between rationalization measures affecting only the producer and innovations of higher orders affecting primarily the consumer. That is why the innovations of higher orders should be made many times more advantageous-- than they have been up to now and people solving and implementing them should be adequately compensated.

There is no need for additional financial means, a restructuring of determining and dispensing rewards would suffice. Priority tasks of the RVT state plan have to be placed ahead of tasks of local or enterprise significance. Interrelations of rewards of social and local benefit may be gradually optimized, modified according to the real interests of the society. For the future, however, the principle should be honored stating that what is of benefit for the society in the first place will be profitable for the producer.

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HUNGARY

HUNGARIAN, WEST EUROPEAN ECONOMIES AFFECTED BY RESTRICTIONS

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[Article by Andras Raba, deputy director of Institute for Economic and Market Research: "Restriction and Adjustment"]

[Text] During evaluation and interpretation of the path the Hungarian planned economy has followed since 1968 the question is often asked: What is typical of this path? Perhaps it is not vulgarization to give this simplified answer to this question: the attempt in a socialist country to place the market automation and independent decisions of the enterprises in the service of the whole society's goals. This requires "rules of the game" supporting the efficiency of planned central management with the sovereignty of the enterprises as well as consumers.

Hungarian economic management started out on this path in 1968. From the distance of a decade and a half the facts of growth and perhaps even more so the expanded opportunities of growth ability prove the correctness of the economic reform's direction and what is even more: of the reform's international significance.

Even so the path was no straight line, free of breaks. Let's ignore for the moment the economic policy, and thus for example, the extent to which after 1973-1974 the decisions which determine the direction and size of economic growth, took into consideration the requirements resulting from the world economic changes, and let's remain at the topic circle of economic mechanism. After 1973 the measures which shaped the tools of Hungarian economic management no longer conformed to the basic direction of the reform concept, and after 1978 the restrictions implemented in the forced situation which had developed--regardless of in what concept they were conceived--increasingly crossed the implementation of the growth processes which could be expected from the reform: development of the ability of the enterprises to flexibly react to the market, and of the technological-technical renewal.

We are not discussing the reasons for the international conditions becoming more difficult (which did not depend on us) nor the domestic reasons for diverging from the path (which did depend on us), but from just one view-

point we will touch on the consequences of these. We wish to point out that the degree of efficiency of the market regulating methods we used in this country, and especially the "result" of the economic policy restrictions which have been becoming more severe since 1979, differ from--fall short of--what formally similar measures produce in countries conducting market management.

In any country the economic policy's characteristics are more-or-less determined and colored by the size of their resources, the social system, the controlling political direction, inheritances from the previous era, etc. All these identifying marks justify certain reservations if we are examining the economic growth of a country, the successes and failures of its economic policy among other things also in the mirror of international analogies. No country or group of countries can be the pattern for another country because of the differences in historical background, given natural conditions and specific circumstances.

Thus, we intend the following thoughts about certain phenomena which follow the limiting of demand not as comparison, but merely perhaps as parallel descriptions which offer lessons on the basis of Western European and Hungarian experiences. The connecting link is that cutbacks in purchasing power since 1979-1980 has been a noticeable characteristic of the economic policy in Western Europe as well as in Hungary. We did not conduct an independent statistical study. Plentiful literature, multi-leveled and accessible is available today about the macroeconomic processes. We will limit what we have to say, to summarizing some phenomena related to the cutback of growth.

Limitation: Why and How?

Placing emphasis on stronger limitation of the demand since 1980 in Western Europe was justified by three--partially interrelated--factors. First, the sudden further price increase of imported oil ("second" oil price explosion); second, the occasional flare-up of inflation which has now been virulent for a decade and a half and which occurred again; and third, instability of the international payment balance of the majority of countries.

The oil price explosion is an independent factor and it played a major role in inflation's acceleration as well as in the deterioration of current balances of payment.

The galloping inflation is also an "independent" phenomenon which can be traced back to complex reasons, even though both oil price explosions as well as the dollar's unusual strength in 1982-1983 had an attendant effect of driving up prices; the latter happened in countries other than the United States. The trade and balance of payments became unbalanced also for other reasons besides the "oil bill", primarily due to the previously uncustomary extent and speed of interest rate changes, differences in the ratios of exchange rates, and the increased role of speculative capital.

All these factors caused the OECD [Organization for Economic Cooperation and Development] countries in the very beginning of the 1980's to change direction of economic policy. While even greater emphasis was placed on the rationalization of energy consumption and in the energy management sector the cutback of the ratio of oil, particularly of imported oil in favor of other energy sources (coal, nuclear), the main direction of the change was that priority was assigned to the policy of restricting the over-all demand to within limits. They were able to record noteworthy successes in this and consequently in forcing down inflation. The success was achieved mainly through the introduction of monetary tools, that is, through restriction of credit, raising the interest rates, and more-or-less controlled growth of the money supply, and also through the so-called income policy which is to be interpreted primarily that real wages were kept at level and in some places and at some times decreased through the exploitation of high unemployment and the weakened position of the trade unions.

But they had less success in holding down the demand by the public sector. A part of the state's expenses has been functioning and became stabilized since the era of the welfare state's development (1950s, 1960s) as a built-in stabilizer and irrevocable social achievement. It weighed no less in the balance that decreasing the expenses was blocked by the unavoidable development of the infrastructure, direct or indirect subsidy to the state-operated and several private enterprises, maintenance and perhaps expansion of the state administration and armament. And the expensive income side was unfavorably affected in the period of softening of the business situation by the loss of tax income related to this (in comparison with what was expected). Thus the increasing need to finance the budget deficits (while it drove up the level of interest rates) caused an interest burden which in itself became a significant and lasting expense item. It became unavoidable to try to whittle down all those items of the budgetary expenses the decrease of which seemed tolerable without the excessive clipping of the ambitions of the governments in power, based on judgments of the tolerating abilities of the domestic political power conditions and of society.

In Hungary the restrictions in limiting the demand were triggered in part by different reasons. The background for the limitations, and also the timing and methods of the restrictions are unique.

The forced situation triggering the turn in economic policy came about well before the second oil price explosion, and so it was independent of it. An extremely high foreign trade balance deficit developed in 1978 in convertible currency, followed by significant accumulation of the outstanding debts. Since between 1973 and 1978 Hungary did not import petroleum from capitalist or developing countries, and its export of oil products to the West covered the modest quantity of oil import, the first oil price explosion (1973-1974) also does not justify the severe deterioration of our foreign trade and international payment situation. In the first half of the 1973-1978 time period we were still able to import petroleum from the Soviet Union at the "old", favorable prices,

and in the second half of it at significant, even though gradually decreasing discounts. Leaving out the energy sources, in the area of raw materials the world market price increases--with significant fluctuations--did not exceed the rate of price increases of the finished products.¹ Thus the deterioration of our exchange rates and foreign payment positions in capitalist trade until 1978 can be blamed only to a small extent directly on the price explosion. Much rather it is a manifestation of the development of our production's and foreign trade's microstructure not having kept pace with the transformation of the demands of the capitalist markets which was also stimulated by international competition. In the time period of relative narrowing of the absorbing quality of foreign markets which occurred after 1973 the Hungarian production and export offer was not flexible in comparison with the continuous changes and transformation of the international import demand and the export activities of our competitors (including their methods from development to sales).

While adjustment mechanisms and actions started to operate between 1973 and 1978 in Western Europe and in several other points of the world not only in the energy sector but also in broad areas of state-managed and private economic operation, and as a result of this by 1978 the "shock" caused by the first oil price explosion, and indeed even the balance-of-payment deficits were more or less counteracted, bridged over, at the very same time in our country a dual process contrary to this was taking place. On the one hand an expansion of consumption by the state as well as the private sector, and last but not least of the investments was taking place, and on the other hand this rapid expansion and domestic consumption occurred in the "extensive" manner by ignoring the expense/result ratio since it was taking place not as continuation and further development of the reform begun in 1968 but as recentralization, trimming of enterprise independence, cutbacks of the entrepreneurial desire.

Simultaneously and in connection with this our positions deteriorated in the international trade of industrial products and services, in the international flow of production factors as a consequence of keener competition and relaxation of the dynamism of foreign markets. In addition to this the narrow cross-sections in the framework of cooperation with the CEMA countries have become more numerous. The ability to obtain a broad spectrum of modern technologies, as well as the usual earlier level of material supply became endangered. Beyond this in this relation due to exchange rate deterioration and tensions in the national economies of the CEMA countries the balance between outflow and import of resources became more unfavorable to us.²

All these circumstances together led to the broad expansion of economic policy limitations in Hungary since 1979. One of the directions of limitations is the removal, "centralization" of an increasing ratio of incomes generated at the enterprises. This had dual consequences. Instead of differentiation it rather equalized the incomes of enterprises since more could be taken away from those places where there was income and the ability to produce income. And further, when supplemented by measures

which increased the cost levels of investments the enterprises made, it cut back the ability of enterprises to accumulate. The other direction of the limitations was to hold down the state's central investments and development actions, to cancel or postpone the earlier planned state investments and developments. The third direction (and in part, consequence) of the limitations was the (action to) decrease in the population's real purchasing power.³ Since the most important direct factor triggering the increase in severity of the limitations was that the balance of payments came under tension, cutting back imports became the fourth direction of limitations which in contrast with the direction (not the actual consequences) of the above measure led to collateral sharpening of the balance's deficit rather than promise to re-establish the equilibrium between the domestic purchasing power and the merchandise base.

Effects of Demand Limitation

With respect to the effects and consequences triggered by severe limitation of the demand, marked differences are seen between the countries which practice market economy--such as the Western European ones--and Hungary.

a) One conspicuous--and well known--difference is that in the capitalist countries the production decrease or rate slowdown occurring as a result of restrictions will immediately increase the number of unemployed. The ratio of employed and unemployed people changes not only with the various time periods and not even primarily as a function of the business cycle's fluctuations--the expansion or shrinking of total demand. Even under "normal" conditions, that is, when business is free of major fluctuations, the economy's branches are not developing at an even rate. Demand for some products and services increases faster, for others slower, or even decreases. Sooner or later production also more or less follows this movement, and production's structure also changes.

The manpower's "trade structure", the structure of its geographic distribution is relatively rigid, and often manpower regroups itself with a delay to adjust to the changing composition of the needs of production and the demand. Thus regrouping needs a certain amount of time; the manpower already leaves the old place of work but has not yet found a new one. Perhaps it does not get a new job for a long time or not at all. At times it is unable to learn the trade in demand which is new to it. This is where "structural" unemployment comes from. And when as in the time period we are discussing--the total demand and production decrease or stagnate, the ratio of "conjunctural" unemployment also increases.

Unemployment has been a severe social shock and problem in the OECD countries especially since 1980. One of the components of this phenomenon is the mass failure of the small independent businesses, bankruptcy and financial demise of small and medium-sized (at times large) enterprises and institutions.

Changes in the structure of demand and production in Hungary causes a shortage of manpower at the affected places of work, or leads to manpower

surplus. Branches and enterprises which are increasing their production are having difficulty finding suitable manpower for the growth because the enterprises forced to decrease production cannot and do not easily want to give up the manpower. Thus the structural change or the need for it does not create "structural" unemployment. And in this country the restriction and the stagnation or decrease of production does not involve "conjunctural" unemployment; furthermore failure and bankruptcy of enterprises struggling with financial difficulties is not typical here, either. But there are social costs of this stability, the overwhelming majority of which does not strike the affected places of employment or persons, as society--indirectly--is forced to pay them. Over the short range the rigidity of our manpower management protects from the risk of losing the job, but over the long range--and increasingly so--it hinders the adjustment of production structure to the changing demand, as well as the replacement of manpower with modern equipment. Often this replacement is not profitable for the enterprises either because wages represent a disproportionately low share of their costs.

b) In the capitalist countries the slow-down of economic growth, the temporary or lasting decrease of demand increases selectivity of the supply. Production and supply of the less-demanded product and services which have become outmoded and which can be sold only at a loss, are cut back. Parallel with the competition becoming more keen, it becomes even more of a question of survival for the enterprises to gradually adjust to the relatively shrinking demand, its composition, and the differentiated needs of potential customers and groups of customers. Therefore rather than cutting it back, the relaxation of growth and total demand actually stimulate the technological removal and innovation, accelerate the turnover in product selection, and at the same time also the efforts to decrease the specific costs. From relatively minor investments they can spend more on modernization, updating, rationalization of energy and material consumption, and less on building new capacities.

In our country we can discover similarity from all this only in the last respect, that is, in spending a somewhat higher ratio of the decreasing investment volume on renewal of the fixed capital, and less on expanding it. In contrast with this, in Hungary no such criterium or selection is implemented in the removal of personal and enterprise incomes, through which the best, most competitive producers which best conform to the demands would gain advantages and growth opportunities over those who produce expensively, conduct poor economic operations, and do not adjust to the demand. On the contrary: an intervention reflex prevails, aimed at equalizing the incomes of enterprises operating at differing efficiencies. Under our circumstances cutting back, slowing down the economic growth does not lead necessarily--and mainly not automatically--to increased adjustment of the supply, more diversified satisfaction of the demand, and does not result in more vigorous turnover of the product selection, faster development of technology, acceleration of innovation or improvement of quality. Our reactions--apart from the exceptions--are late, slow and complicated. Under our production, manage-

ment, sales and interest conditions the supply's flexibility falls far behind the usual level in the sphere of international competition.

The Hungarian economic literature has amply covered the reasons for all this.⁴ We will refer here to only three factors. A much larger share of the energies of Hungarian enterprise managers is occupied by obtaining the "input" (manpower, machine, material, parts, import) or the forced substitution for these, than sales, capturing the market's impulses and adjusting to them.

The second one is the experience known all too well today, that the enterprise's performance and evaluation of its managers depend to a much greater extent on the fulfillment of higher level "expectations" and success of negotiations with the authorities, than from undertaking new, modern solutions necessary to adapt to the demand. The run-through time for these solutions is longer than the reporting period and they involve many obstacles, traps and risks. Furthermore the principle of "supply responsibility"⁵--which builds on the monopoly situation created by the state--hinders the elimination of uneconomical production and renewal of the product selection.

If we limit the demand and the economic growth stagnates (and we cut down the domestic consumption), and especially if we do all this without import competition (and even more so if we do it simultaneously with the collateral limiting of import), supply on the domestic market will not improve just from this, and the power advantage of the sellers will remain. Therefore the composition and market ability of our export offerings cannot improve either. Export orientation's strong prevalence weakens the system of requirements for directing the national economy in the normative manner, and due to the outlined circumstances it cannot result in the increase of economical export. Neither can it for other reasons, since successful export depends on the actions of several such parties, and on the joint effect of factors upon which the directly exporting enterprises can not exert any kind of meritorious influence.

Let us name some of the more important ones among these factors of competitiveness. Modernness and speed of transportation and freight hauling, availability and operation of the telephone and in general the modern communication, quality of the public services, interest of the enterprises operating in the prior phases of the production vertical--and of enterprises in general, the competitive climate or lack thereof, suitability of managers on all levels, the mechanism for becoming a manager, the nationally developed characteristic level of work ethic, discipline, and productivity--all these are circumstances upon which the directly exporting enterprises (and the enterprises in general) cannot, or just barely exert any influence. These circumstances classify a national economy's performance and thus its export performance as well into a definite category from which above average and even outstanding results may be born, may occur in case of extra efforts and/or luck, but not with the frequency and most of the time not at the price that the improvement of our world market positions could be based on them.⁶

c) Slowing down the economic growth, limiting the demand has in the countries which practice market management, unanimously involved significant moderation of the price level's rise. Inflation between 1980 and 1983 on the average of the OECD countries decreased to half. Even though there still are today countries, especially in the Mediterranean region which are battling double digit inflation, in a whole series of the economically better developed countries (United States, Japan, England, FRG, Austria, Switzerland, Holland, Belgium) the rate of inflation has decreased to 3, 5, or 7 percent.

Thus while in the countries which can be characterized with "demand-limitation" the restriction of money overflow, narrowing of the purchasing power forces the price level down (and together with this also the price level of international trade), in Hungary which can be characterized by "resource limitation" the restriction does not similarly lower the rate of inflation.

The reasons for this phenomenon (and for the failure of an expected consequence to materialize) are not mysterious at all. Inflation is closely related to the presence of excessive demand. When central management endeavors to tap the purchasing power of the enterprise by additional or increased withholdings, three processes are taking place. On the one hand the enterprises will try to do anything--and usually not without success--to in some way at least partially replace the removed subsidies, income, or means of payment--through various formal and informal channels, reasoning and bargaining--in order to finance their current economic operation or development actions. Thus the intentional tapping of purchasing power is only partially successful. (It is a soft budgetary barrier.) Secondly, the absolute or relative deterioration of the financial positions of the enterprises--and indeed even the anticipation of this by the enterprises--increases the effort by the enterprises to overinsure themselves with purchasable materials, parts, machinery, and inasmuch as possible, with imported products. And thirdly, the production and development opportunities which are diminishing in spite of this--we have already referred to this--do not trigger the reaction of rationalization and possible regrouping of the production factors⁷ at our enterprises, and even to a much lesser extent do they trigger the compulsion of escape in a forward direction: of enterprising, but rather they sort of assume a porcupine position: they become careful, reserved, work to build up a defensive position against the expected or assumed limitations, they underplan, and stand ready to fight at the given opportunity for a more advantageous situation for themselves at the next round of negotiations.⁸

The relative lack of money could exert the deflationary effect expected from it only in a competitive medium and in case the development of free market prices had too much weight.

Thus the limitations and their fighter enforcement in this country do not necessarily promote the global, and even less the structural improvement

of the lack of balance between supply and demand, or moderation of price level increase.

d) The unique exchange rate policy we practiced until mid-1982 is also related to what has been said above, and even though there have been some changes since then, this problem area remains unsolved so far. Since 1973 the currency exchange rates were made flexible in the world economy. This since then oft-debated series of steps has undoubtedly increased uncertainty and risk in the international transactions, thus in international trade as well. The exporters have been wary of acquiring demand positions in weak currencies or in ones subject to weakening according to preliminary indications, while the interest of the importers was exactly the opposite. Firmness of the individual currencies was also influenced by the country-to-country variation and fluctuation of interest rates, especially since the international flow of hot speculative money has taken on large dimensions and these capitals more than once changed place rapidly on the basis of rumors or expectations.

As long as movement of the short-term capitals was guided by efforts to realize instant profits, in addition to long-range and durable profit and in the interest of this the long term capitals sought and preferred places of investment (countries, enterprises) judged safe from the political and economic viewpoints.

To summarize it all, a more flexible international monetary system has developed since 1973 which is more suitable to the world economy's rapid change and crisis phenomena, and within this a flexibly adjusting exchange rate system has developed, supported also by automatic features.

Since in the last decade instead of the earlier expansion of the markets their slower growth and relative shrinking was and has remained the dominant direction, interest in export and increasing the share of the export market has increased world-wide, simultaneously with economizing with the imports (especially with the petroleum import which has become extremely expensive). In every country practically without exception, even in the largest ones and recently also in the OPEC countries the economic policy's storehouse of tools and its variety designated for this purpose, the exchange rate policy has been deployed to promote equilibrium in the foreign trade balance and in the international payments.

In essence the exchange rates develop as a function of the market conditions, the dynamics and ratios in the changes of prices and costs, also reflecting the mutual international effects. The exchange rate policy can not act arbitrarily without disadvantageous consequences, it cannot break away from the market's realities, but it can be used to support implementation of the economic policy's priorities. This does not in every case mean an inclination to devalue—regardless of how significant an interest is attached to increasing the export. Thus, for example, in England or in the FRG (and in Austria which is closely tied to it economically) the policy of strong currency has been practiced now for a long time, because they can allow the advantages of this with

other elements which promote the competitiveness of the country and of its enterprises. In any case the exchange rate policy can take steps which supplement, modify and influence the automatisms of adjustment.

In this country the--we feel, justifiably questioned--problematic characteristics of the exchange rate system's operation feed from two sources. On the one hand the level of the exchange rates is not shaped as a function of the realistic economic processes, but rather we are shaping them--somewhat arbitrarily--as a function of the changing economic policy priorities and flexible interpretations. On the other hand we are applying several means which supplement or amend the exchange rates; these weaken, neutralize and perhaps distort the function and effect of the exchange rates.

The exchange rate policy is especially lacking in fulfilling its expected role in assisting the equilibrium in our international balance of payments. Dependence on foreign trade and our country's interest in exporting are not recognitions which originated today. And yet, between the beginning of 1980 and the middle of 1982 (that is, at the time our indebtedness was accumulating, and in spite of the obvious signs of our intentions aimed at overcoming, decreasing it) we have several times revalued the forint upward against the Western currencies.⁹ Every single upward revaluation decreased the income the Hungarian exporters derived, expected or planned to obtain from their export activities. Development of the export capacities, creating and operating the domestic and foreign cooperations, enterprise relations necessary for this, opening up markets, cultivating them and the sales themselves; these can obviously be the results of several years of work. Direct removal of a portion of the incomes derived or hoped for from the export at a given instant can affect and hinder not only the current economic operation of the enterprises but also the possible expansion of their export activities, and obviously it did hinder them.

The justification for overvaluing the forint was defense against inflation. But this reasoning and this practice reflect an economy which does not have other efficient tools to slow down inflation, and overdemand and shortages, and stimulate supply. We do not have the proper selection of means to eliminate the domestic reasons which generate inflation, or at least slow their effect. Therefore the government agencies bearing the responsibility of preventing the overgrowth of inflation felt that they had to resort to this simple and immediately effective method of cure, upward reevaluation in order to prevent inflation from running away, sacrificing even the viewpoints of the foreign trade balance.

All this does not mean that significant devaluation of the forint would by itself solve the situation. Under our circumstances, with the presently very lacking and distorted cost and price sensitivity of our enterprises, the development of an equilibrium exchange rate--*ceteris paribus*--would not necessarily lead to sufficiently strong stimulation of the export and efficient import substitution. Because of the currently applied means and methods of purchasing power limitation and income centralization,

lack of uniformity, clarity and predictability of financial regulation, the role of the exchange rate is devalued in enterprise decisions related to export and import.¹⁰ Putting the currency exchange rates in order can be imagined only within the framework of comprehensive forward steps--less easily postponeable--in the management system.

e) When is our situation in the relationship between demand limitation and the import?

The slowdown, and even more so the decrease of economic growth and domestic consumption improves the foreign trade balance inasmuch as it decreases the import demand of the domestic users and at the same time it results in using the available capacities, or a portion of them for export purposes. The increase in the volume of available capacities and merchandise bases cause the export to grow only if this additional supply fits in with the way the geographic and merchandise structure of the demand abroad has developed, and if it is competitive. However, if slowdown of the economic growth occurs simultaneously on the main markets of some countries and lasts long, and further, if in the affected country an adjustment mechanism is not implemented fitting the changes in the demand and cost ratios (if the economic policy has not prepared the country for this), then cutting back the domestic purchasing power is not accompanied by the corresponding increase in export, by import substitution of the appropriate size and efficiency. This additional import limitation may become necessary.

In countries conducting market management the relative cutback of purchasing power and decreasing the production rate were accompanied by more-or-less proportionate moderation of import, which is organically built into consumption and production. Beyond this the ten years between 1973-1983 were also the time period when the limitation of collateral import became more frequent in the West.¹¹ The spreading of defensive regulations against import was particularly noticeable after the two oil price explosions (1973-1974 and 1979-1980) when most developed as well as developing countries suffered extraordinary exchange rate losses and the deficit of their current payment balances swelled up. Besides this the sharpening competitive battle between the main exporters of branches which fell into lastingly endangered situations (steel production, automobile industry, textile and clothing industry, petrochemical branches, manufacturing of some mass consumption items, as well as traditionally the agriculture) also led to many ad hoc (tactical) or institutional (strategic), open (announced) or (poorly) concealed import limitations. Besides this--as is well known--the web of regional and special preferences and separate agreements covers the system of world economic relations. And we have not even mentioned yet the discriminative measures of political character which also affect us.

In spite of the ground gained by protectionism we still cannot consider that opinion to be obsolete today according to which in the international flow of goods, services and production factors the relative flexibility and large

number of variation and combination possibilities created by the liberalized basic directions of the decades which followed World War II, basically still continue to prevail.

This is the background for cutting back domestic purchasing power, slowing down import and in some places even generally or partially limiting it temporarily or over a long range which has become typical almost worldwide.

In the West this limitation does not create a shortage situation in the supply either in personal or in production consumption. There are alternative possibilities, there are several ways to substitute the imports, which can be resorted to. The choice is a function of profitability considerations. This is aided by the mobility of production factors. The exchange rate policy initiates some automatic processes and creates a compulsion to adjust, within the framework of which the enterprises and the population--and to a certain extent also the public entities--become interested in substituting for a higher ratio of import than before.

In Hungary, holding down the import for a longer time leads to corollary tensions almost impossible to resolve, under the circumstances of a lastingly typical shortage situation. Decreasing the domestic purchasing power and simultaneously limiting the import strengthens the process of compulsory substitution, but this is not the same as recombining the production factors for profitability considerations. There are several institutional barriers to this. Statistically the manpower has a very high level of mobility but this derives mostly from masses of employees changing places of employment on the individual basis, trying them out, rather than from that opportunity of the enterprises to shape their manpower work force as a function of demand, costs and profitability. The inflexibility of regrouping the capital as well as the constraints on production profiles have been known for a long time. Trade relations and cooperation between the domestic enterprises are inflexible and move mostly on forced paths. Adequately differentiated stimulation of work performance, risk taking and innovation meet with strong obstacles. In this way the shortage situation resulting from import cutbacks can be bridged over only intermittently, occasionally by the enterprising activity of the enterprises, and much more likely leads to an increase in the number of bottlenecks.

Deterioration of the exchange rates in the CEMA relation represents an additional problem. This makes it necessary to increase the export volume faster than the import. This extra export calls for additional convertible import at a time when the national economy's total production is stagnant and the total convertible import is forced to decrease.

f) Stricter "dosing" of the purchasing power prevails uniquely in the sector of investments. Under the market conditions the direction of investments is determined usually by two factors:

--production capacities are created for products which are in domestic and foreign demand and whose income flexibility is adequate;

--investments are made in those manufacturing branches, subbranches and activities which have adequate chances to favorably shape the ratio of costs and prices.

This latter depends on the supply of production factors, or their obtainability, combinability and price, and the achievable level and rate of productivity.

The activity of competitors and the market share which can be obtained are also taken into consideration.

In the last decade and especially since the beginning of the 1980s in the countries of the European Economic Community the investment activity was much more lax than the trend of the previous decades. Exceptions to this were, for example, the branches serving rationalization of energy consumption and development of alternative energy sources, electronics, computer technology, and a few industrial branches which fill orders related to armament. There was lasting oversupply and investments decreased especially in the traditional manufacturing branches (steel industry, automobile production, textile and clothing industry, petrochemicals, metal mass products industry, electrical industry products, manufacture of certain durable consumer items). In these segments of the market the outplacement of capital into the developing countries increased, as did the competition of enterprises (in part in foreign ownership) in the developing countries.

Throughout the decade the "stop-and-go" policies caused or strengthened by the two oil-price explosions led to short-term fluctuations in investment.

Due mainly to the relaxation of the investment activity the overwhelming majority of the time period between 1973-1980 was characterized by relative abundance of capital, its relatively low price, an interest rate level barely keeping up with inflation, and at times even a negative interest rate. In this time period the owners of capital (among them the oil capital and the private banks) "recklessly" offered, and the enterprises and states (as well as private persons) "recklessly" took on large amounts of loans and amassed debts.

Until about 1978-79, as a consequence of recirculation of the Arab oil capital and the active lending practice of banks and international financial institutions we cannot yet talk about a liquidity crisis of international proportions. Investments still decreased in the developed capitalist countries because the growth of total demand slowed down in 1973, fluctuation of exchange rates and interest rates accelerated and the risk of long range investments significantly increased. Add to this that some of the--mainly the developing as well as the socialist--countries

using the large amounts of loans were conducting development policies which later proved erroneous. Using foreign resources they created in part outmoded, unexportable production capacities, and carried out so-called extensive industrial development which in many cases was accelerated and inefficient. And they were forced to spend a portion of the loans to bridge over bottlenecks--lack of materials, lack of food--resulting from insufficient exploitation of their domestic resources.

The second oil price explosion after which the danger of inflation running away again increased, caught the industrial world in this situation. Therefore the measures to limit demand increased since 1980. Interest rates rose to exceptionally high levels. A relative shortage of loans developed, because--among other things--amid the accumulation of state debts (increased armament plays no small role in this) the states are forced to take on increased amounts of loans and create competition on the capital market for the private enterprises which need loans. The more expensive oil, low raw material prices and narrowing of the markets heavily burdened the payment balance of most developing countries. Problems, reversals and losses caused difficulties in making time payments on loans and meeting the interest payments due. A large number of enterprises went bankrupt, many countries became insolvent.

Under these circumstances the decline of investment activity continued even more decisively in the developed capitalist countries, including Western Europe. The investors are forced to increasingly adjust to the more difficult market conditions. An increasing ratio of investments serves rationalization of the production process and increasing productivity, the ratio of renewing the fixed capital as versus expanding it increases. As continuation of the long range trend the enterprises endeavor to replace the "expensive" manpower with mechanization and electronization.

By 1983 as a result of the restrictive measures the inflation rate and the nominal interest level were successfully lowered again significantly in the developed capitalist countries (the real interest rate remained high). The investment activity continues to be held down, especially in Western Europe; the enterprises are complaining about it and the government admit that with the present risk of investments, the high cost of capital, the large tax burden, uncertain development of domestic and foreign markets, confusion of the international finances the enterprises are not feeling sufficiently stimulated to accumulate at the appropriate rate and undertake investments which would be recovered over a longer range. From this viewpoint the United States and Japan are in more favorable position; in some of the Western European countries (thus the FRG and England among the large ones) recently the outlines of improving are emerging.

In Hungary in spite of significant changes in the world economic environment, expansion of the investments are taking place until 1978. Only then did it become sufficiently clear that a turnabout must be executed in the investment policy. Even though the sharpening of the world market competition, stagnation of international trade, its temporary decline, deterioration

of our exchange rates, the accumulating debts, burdensome credit conditions, gradual assertion of the oil price explosion in the CEMA trade, that is, the external reasons even in themselves had already since the mid-1970s justified the review of continuing the investment activity at the earlier rate and manner. This did not occur until 1979, that is, at the time of accumulation of the unfavorable circumstances mentioned. The investment purchasing power cut-backs started to occur in a time period when adjustment to the world economic structure changed and the developing, renewing, rationalizing investments needed for this (in spite of the extensive investment wave of the previous time period and partly as a result of it) were already late. As a result of the limitations "the investments (by 1983) decreased by 15-20 percent compared with 1978." "The net accumulation (in 1983) amounts to about 13 percent of the national income's domestic utilization, in contrast with the ratio usually around 25 percent in the earlier decades."¹²

Other authors have analyzed in detail the character and effect of the measures introduced in several waves, modified and supplemented for limiting the investment activity and especially the investment purchasing power.¹³ We refer here to that already generally known experience that our enterprises are reacting to the measures narrowing down their purchasing power primarily not by holding down their expenses, reasonable regrouping of their production factors and investment actions, transforming their offerings to better satisfy the market's requirements, because neither their interests nor their means force them or enable them to do this. The fact that several enterprises which have gotten into a difficult situation are making efforts to find solutions to bridge this over, to improve their financial and market position, changes little of this. In spite of the efforts of the enterprises and the government's measures to hold down domestic utilization and encourage direct export, the Hungarian share of the world market is stagnating and even slightly decreasing.

Not only the total volume and dynamics of the investments will determine the size of the supply's growth and modernization. Primarily the market ability of products issued by new or modernized production capacities qualifies the efficiency of investments--taking also the expenditures into consideration. The decrease in the world market share of our industrial products is closely related to most development products not being aimed at, or being unable to reach the world's market level of demand. And the development-related shortage of means is sharpened by our spending a significant portion of the resources on maintaining activities unable to produce income, obsolete from technical and market viewpoints, and needing subsidy. If these activities were cut back we could replace the lost production by exploiting efficient (advantageous, cheap) import possibilities.

The justification of limiting the investments--under our present circumstances--is hardly debatable. These limitations can undoubtedly

moderate the excessive tension on the domestic investment market. But they do not change the situation of the enterprises, nor consequently their investment views and practices.¹⁴ The investment hunger of the enterprises will hardly decrease because

--the majority of their markets, primarily the domestic market exerts a suctioning effect;

--they feel the relative shortage of production factors or some of them (manpower, modern fixed assets, raw materials, intermediate products, spare parts, foreign currency, cooperative and entrepreneurial opportunities for movement); to bridge this over they tend to begin investment actions and endeavor to obtain central assistance for these;

--for the individual investment actions--in case of tough bargaining--they can usually spend more than the amount projected, planned, requisitioned, etc.

But if the enterprises in this manner exceed the investment budget centrally specified, this leads to further whittling down the investment demands, to qualifying some of them as unjustified, withdrawal of a portion of the money fund already assigned to development, continuation of the downward trend of the investment spiral, which can severely and lastingly retard technical development and the export's desirable development.

In our country the allocation of resources for development purposes is still done on the macro as well as the micro-level decisively on the basis of designating supply goals identified in terms of natural products, and compromises between various partial goals and interest groups representing partial goals. Allocation changes from time to time, in accordance with the new recognitions and the changes in power relationships of those who are battling for the resources. The change is much slower in the effectiveness of development actions which belong to any allocation, to any resource distribution: the time for implementing the investments, the cost of investments, the quality, modernness and market ability of the products issued by the capacities so created.¹⁵ In times of reductions such as the present, that is, when the means which can be spent on development and current production are especially limited, the low level of efficiency and the consequences of shortage situations which multiply at such times throw a sharp light on the shortcomings of our guidance system.

Some Conclusions

The observations show that central regulation of the purchasing power and in general of the economic processes can have very different effects depending on a) what kinds of tools are used, in what direction and to what extent (what the so-called "policy mix" is), and b) in what situation these reach the enterprises.

As a result of the economic reform, the first group of factors, that is, the selection of tools available for deployment offers significantly more

expanded and more formally similar possibilities of application in Hungary than the inventory of means of countries which conduct market management. Formally, because the second group of factors, the position of the enterprise sector is fundamentally different. The more interested and able the enterprises are to make independent business policy and strategic decisions, combinations based on profitability considerations of the production factors, and the more sensitive they are to changes in costs, prices and market factors outside of the prices, the more receptive they are to fine-tuning regulations by the state as well. On the other hand, if the interest and action ability of the enterprises is less tied to the above-mentioned factors, if their motivation is too complicated, perhaps even contradictory and not interwoven with economic elements, then the tools of central regulation which in other medium prevail sufficiently, cannot here exert the effect otherwise expected of them. In our country the multitude of limiting, directing, prohibiting and stimulating measures piled on top of each other in recent years which can hardly be brought into coexistence with each other, in their over-all effect weakened the implementation of central intentions.

Taking into consideration that the effects of the multiplying restrictions throw a sharper light on the limits of our economy's ability to function, we can also arrive at conclusions of more general validity.

Adjustment by the producers to the changes in demand and demand limitation does not take place smoothly and without problems in the countries practicing market management, either. The lasting stall in the economic growth of the capitalist countries and the heated debates constantly going on about the questions of economic policy to be followed are witnesses to this. Adjustment requires sacrifice. There are always winners and losers, in the absolute or relative sense, among those who play active roles in the economy, the enterprises and households. In times of reductions or in recent years--the number of losers generally increases, and so does the size of the losses suffered. Who comes out well and who comes out poorly is decided to a significant extent (though far from all cases and not exclusively) by industrious work, suitability, good ideas, the correct steps or the lack of these. In some cases fortunate circumstances or contacts within the authorities may also play a role. In the murderous competition the deployment of unquestionable moral tools is not unusual either. A portion of the capitalist society's rules of the game is a hotbed of distortions not at all desirable to us.

But flexible adjustment to the demand, elimination of excessive demand and shortage situations are not monopolies of the capitalist economy. Even under socialist production conditions we cannot exclude the possibility of creating such socio-economic circumstances which with respect to the current economic operation and development as well as to the living conditions, enable us to reach much higher performances than today's. These tools are of many types, can be varied, changed, and the test of experience qualifies them. The production forces and the results achieved in improving the standard of living are what count;

these stand in close relationship with the way scientific achievements, modern technology, the methods suitable for guiding society, and everything which makes production efficient and improves the way of life, are developed and applied in the everyday practice. This depends also on distribution and last but not least on the functioning of the institutions.

Our writing dealt with only a single aspect: whether in the time of holding down, decreasing the economic growth there is anything we can learn from observing the method and effect of the limitations. This calls for a closing thought.

On all three levels of the economy--central government, enterprises, households--a multitude of decisions are made day after day, and at certain times, time periods. The decisions are made by individuals or bodies, and the direction and content of the decisions are significantly influenced by the degree, intensity and implementation of social control and pressure. Two types of practices are possible from this viewpoint.

In one case the information necessary for making the decision is known only to those who make the decision, and to their environment. (Naturally there are informations of strategic significance which do not belong before the wide public.)

Those who carry out the decisions and bear their consequences are given only rough information or formalities of it, often belatedly. Therefore their responsibility is dulled, they do not identify with the task assigned to them. But the largest damage is suffered by society: the desire to work, the initiative, the enterprising willingness so hotly desired today by everyone suffer a blow, production factors remain unexploited. Willingly or unwillingly, decisions made without social control--and the failure to make the necessary decisions also belongs here--can prove defective or at least suboptimal in a much higher ratio of cases than decisions which rely on society's driving forces.

In the other case an open atmosphere prevails in public life. The policy--and within this the economic policy--is influenced by phenomena and events which the public opinion can follow. Those who play active roles in the economic and social life--enterprises, workers--have such representation of the interests which in a socialist country can exercise influence on the governmental organs on the ground of ultimate identity of the basic interests of society's members. Thus the responsibility of leaders is not only a matter of conscience but they must also accept and bear the risks. And the workers within the enterprises--can exercise pressure within legally regulated limits on the enterprise's leadership. In both cases the pressure serves to contrast the views and efforts of the groups and strata with different partial interests according to the places they occupy in the distribution of work in society's interest, and to make available variations, new ideas, possibilities of renewing the personal and institutional conditions for the solution.

Our country is in that relatively fortunate situation where abandoning the first type of decision-making system it has taken steps in the direction of the second type. Not just our country's accumulated problems but the circumstances of the world economy and world politics also make it necessary to move further along this road.

FOOTNOTES

1. In Hungary's foreign trade between 1972 and 1978 the prices of agricultural and food industry products imported from the non-socialist, mainly from the developing countries, as well as of the chemical products and machinery import from the developed countries increased faster than the price level of Hungarian export products sent there in these same product groups. It stands out that in this time period Hungary's export price level increased only barely in the world export's most dynamic sectors, the group of machinery and chemical products. See "Foreign Trade Statistical Yearbooks."
2. The growth of our import from socialist relations slowed down significantly after 1975 and replacement of the import items which could not be obtained from here—which was also made increasingly necessary by the economic growth still lively at this time—burdened our capitalist foreign trade balance. Between 1976-1978 the volume of capitalist import increased several times faster than the socialist one, by approximately 12 percent on the yearly average. And due to the exchange rate deterioration in the socialist relation we were forced to increase the volume of our export in this relation significantly faster than our import, in order to counteract this. This is accompanied by the growing trend of our socialist export's demand for capitalist import. See Andras Koves-Gabor Oblath, "Hungarian foreign trade in the decade of the 1970s, "GAZDASAG No 4, 1981.
3. We will not cover any other limitations here instituted to slow down growth or improvement of efficiency as, for example, the practically prohibitive taxation levied against any larger than minimal increment of the wage level.
4. We refer to only two outstanding works from the rich literature. In his work entitled "The Shortage" (Economics and Legal Book Publishers, 1980) Janos Kornai gave a comprehensive theoretical analysis about the operation of the socialist economy's existing variations, reasons for the chronic shortage phenomena, its components, the behavior of enterprises, public entities and households, and the processes of adjustment. In his article entitled "Growth--With a Side Trip: The Hungarian Economic Mechanism in the 1970s, "GAZDASAG No 2, 1980, Laszlo Antal analyzes the slowdowns, tensions of the economic reform process, and the tools and consequences of "putting things back in order."

5. For definition of the concept of the mechanism built on the "supply responsibility" and for an explanation of how it operates, see Ivan Schweitzer "Some Interrelations of the Enterprise Organization and the Economic Mechanism," KOZGAZDASAGI SZEMLE Nos 7-8, 1981.
6. For more detail see Andras Raba "Some Factors of International Competitiveness", GAZDASAG No 1, 1982.
7. Under the existing price, taxation and subsidy system it is not clear whether whatever is profitable to the enterprises or possible for them as a means of bridging over, is rational from the national economy's viewpoint.
8. For description of the producer's and the buyer's adjustment or "forced adjustment" behavior, see Janos Kornai's already quoted work. On the subject of operation of the domestic material purchasing system and the behavior of the enterprises in connection with this see Janos Gacs, "Passive Purchasing Behavior and Possibilities of Adjusting, GAZDASAG No 3, 1982.
9. Devaluation has taken place in a few cases since July 1982; but also considering the rate of rise in the domestic producer price level and the two decreases in the tax rebate, in terms of real value the incentive to exporters has not improved.
10. About the exchange rate policy's dilemmas see Gabor Oblath, "Hungarian Exchange Rate Policy and Export Stimulation in Early 1980s, "Business and Market Research Institute, 1983.
11. Istvan Lakos, "Protectionist Directions in Trade Policy of Capitalist Countries, "KULGAZDASAG No 11, 1982.
12. Janos Hoos, "Economic Policy--Investment Policy, "NEPSZABADSAG 12 Oct 1983.
13. Mrs Jozsef Huszar, "Regulation of Investment Purchasing Power in the 1970s, "GAZDASAG No 2, 1983. -- Laszlo Antal, Conflict of Financial Planning and Regulation," GAZDASAG No 2, 1983.
14. Theoretical explanation for the "soft budgetary limitation", investment hunger, regeneration of tensions related to investment can be found in the above already quoted work of Janos Kornai. For the investment cycles, as well as interrelationships between the investment activity and the economic system with respect to the plan directive system, see Tamas Bauer, "Planned Economy, Investment, Cycles," Economic and Legal Book Publishers, 1981.
15. Compare with Andras Koves--Gabor Oblath: article entitled "Investment structure and economic operating conditions" (GAZDASAG No 4, 1980) the things said about the market's "allocative" and "creative" functions, in connection with the investment decisions.

EXPORT, DOMESTIC MARKETING PROFITABILITY DISCUSSED

Budapest FIGYELO in Hungarian No 31, 2 Aug 84 p 3

/Article by Mrs Fazekas nee Katalin Kovacs: "Profitability of Export and of Domestic Sales"/

/Text/ In the last 2 years the results and profitability* of enterprises and cooperatives developed differently according to the various directions in sales. The results of domestic sales decreased in 1983--as in the previous year--and its profitability remained at the previous year's low level. The result and profitability of convertibly accounted export increased in 1983 after the significant drop in 1982. The result of ruble-accounted export also increased in 1983 though at a more moderate rate than in previous years, but its profitability fell short of the level of the previous year. Under the effect of all this the difference in favor of ruble export which developed in 1982 moderated in the level of export's profitability.

The question is: if there are differences in the profit relationships and its changes between the individual sales directions, then does the profit situation of enterprises differ as a function of which market has the definitive role in their sales? In the interest of answering this I have listed in groups all the industrial enterprises on the basis of the order of magnitude of their incomes from export, and ratio of export to domestic sales.

It indicates a very strong concentration of export; group III, which consists of barely 5 percent of the enterprises, accounts for more than 60 percent of the total ruble export and nearly 70 percent of the convertibly accounted export. These enterprises also fulfill an important role in the domestic supply; they realize over one-fifth of the total domestic sales income.

* Profitability: the result realized in the given sales direction, in terms of percentage of the income.

Enterprise Result

Enterprise-produced income, the net production value calculated at current prices, increased by 3 percent in 1983 in industry as a whole compared to the previous year, and exceeded 240 billion forints.

Produced income grew significantly faster (7.5 percent) than industry's average at the enterprises of group II. In group IV the income's growth was more moderate (nearly 4 percent). Produced income in group III at the enterprises which sell the most in both export relations did not reach the previous years (94.7 percent). But in evaluating this it must be taken into consideration that the machine and chemical industrial enterprises, which within the group have the largest share of the production value, increased their incomes by 6.5 and 14.2 percent, respectively. At the same time in the food industry--which generally has to be treated with reservations in all examinations which analyze the direction of sales, because of its organizational and divisional characteristics--a "negative income" is seen and it is strongly growing as a consequence of expenditures which exceed incomes.

The average growth of produced income in this group, excluding the food industry, is 0.8 percent, and the change in enterprise results is completely different from the way income developed in the individual groups.

The industrial enterprises realized a result of more than 82 billion forints in 1983, 7 percent--5 billion forints--more than in 1982.

The result increment appearing in industry was realized almost in its entirety in group III (64 enterprises). Within the group the result increment of those enterprises of metallurgy and the machine industry which belong here is significant, but the result increments of the food and chemical industries are also considerable.

Among the enterprises which produce the largest ruble export and the largest convertibly accounted export (groups I and II, respectively), the produced income grew faster in the latter, but the increment in enterprise result fell short of that of group I. In group IV (smaller exporting enterprises) a result which falls short of the previous year's characterized mainly the light industrial enterprises.

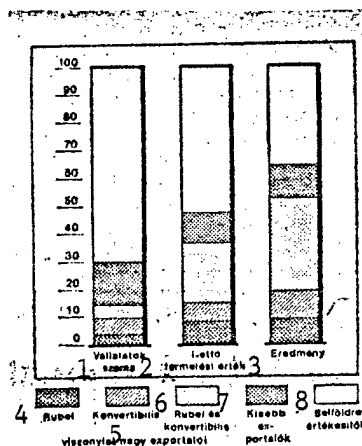
The result of enterprises selling domestically also decreased, primarily in metallurgy and mining. The differing size and direction of changes in produced income and enterprise result is reflected in the fact that in 1983 the contribution of the individual groups studied to industry's produced income and results differ significantly from each other) (Figure 1 illustrates this).

Table 1. Result in terms of percentages of the produced income, 1983

L1 Agazat		9 A legnagyobb exportáló vállalatok			13 A kisebb exportáló vállalatok	14 Belföldre értékesítő vállalatok	15 Összesen
		10 rubel	11 konver- tibilis	12 rubel és konvertibilis			
		I. elszámolású	II. viszonylatban	III.	IV.	V.	
2 Ipar összesen		42,0	42,2	56,5	36,3	22,4	33,9
3 Bányászat		30,0	0,6	—	26,9	5,4	5,8
4 Kohászat		41,9	43,8	—	34,5	21,3	38,7
5 Gépipar		37,3	35,9	39,3	35,6	37,6	37,9
6 Építőanyagipar		—	48,3	34,0	31,2	27,5	31,2
7 Vegyipar		—	35,7	56,9	31,6	54,5	54,3
8 Könnyűipar		47,8	32,0	47,1	32,5	37,6	36,9

- Key:
- 1. Branch
 - 2. Industry total
 - 3. Mining
 - 4. Metallurgy
 - 5. Machine industry
 - 6. Construction material industry
 - 7. Chemical industry
 - 8. Light industry
 - 9. Largest exporting enterprises
 - 10. (Column I) in ruble accounted relation
 - 11. (Column II) in convertibly accounted relation
 - 12. (Column III) in ruble and convertibly accounted relations
 - 13. Smaller exporting enterprises
 - 14. Enterprises selling domestically
 - 15. Total

Figure 1. Percentage ratios of the enterprise groups in terms of their numbers, net production value, and result index, 1983



- Key:
- 1. Number of enterprises
 - 2. Net production value
 - 3. Result
 - 4. Large exporters in ruble relation
 - 5. Large exporters in convertible relation
 - 6. Large exporters in ruble and convertible relation
 - 7. Smaller exporters
 - 8. Domestic sellers

For the most part the most significant exporters come from among the enterprises with relatively large production. At the large exporting enterprises a higher ratio of produced income is realized as enterprise result than at the enterprises which sell domestically. This is illustrated by the data for the few branches included in the tabulation.

Thus in industry as a whole after wages were paid and the budgetary relations directly related to production were satisfied, 34 percent of the produced income remained in the enterprises as a result. The profit ratio is significantly higher than average in group III and the measures aimed at encouraging export also play a role in this. Those enterprises which sell significant amounts in only one relation operate at nearly identical profit levels. The smaller exporting enterprises achieve a significantly lower profit ratio than the large exporters, their profit level remains 20 percentage points behind that of group III. Among the groups examined, group V realizes the smallest ratio of its produced income as profit. This is presumably connected among other reasons to the enterprises selling domestically being mostly net taxpayers in their budgetary relations (that is, their payments in significantly exceed the subsidies they receive).

In industry as a whole, export's profitability is improving in both relations. Even though the profitability of convertibly accounted export increased faster, it continues to remain less profitable. It can be observed in both relations that those enterprises (which otherwise have a smaller share of the sales income) reached higher profitability in the given relation which concentrate their export on that market.

Profitability of ruble export in group I (large exporters in ruble relation) was four percentage points higher than in III. The profitability of the two groups differs significantly, especially in metallurgy and the food industry.

A difference can also be observed in the profitability of convertibly accounted export to the detriment of group III, but the extent of difference in industry as a whole as well as branch-by-branch is significantly smaller than the difference seen in ruble export. (In this relation profitability developed differently only in the chemical industry, as here the profitability of the convertibly accounted export of group III is higher, but its level of profitability is very low.)

In industry as a whole, profitability of domestic sales has hardly changed at all compared to 1982, and thus profitability continues to be the lowest here. The extremely low profitabilities of mining and the electrical energy industry--as the branches which sell primarily domestically--as well as the food industry play a role in this.

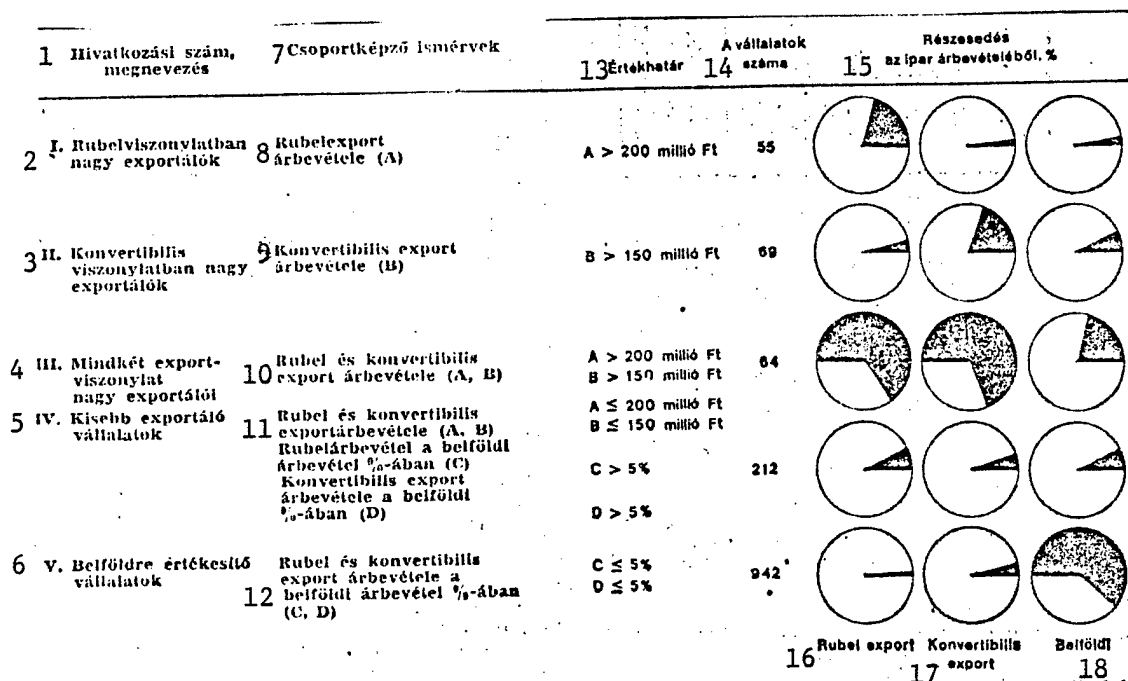
In those branches where the enterprises which do much export business in both relations also represent a significant weight in domestic sales, profitability achieved by the exporters domestically is lower than that of those who sell primarily domestically. (The largest difference is found in the machine industry.)

Those Improving and Those Falling Behind

In the group of enterprises equally significant from the viewpoint of export and domestic sales (group III) it is worth reviewing the order of profitability which can be reached on the various markets. In industry as a whole the highest profitability was reached in the ruble export, the lowest in domestic sales. But the order of profitability of the various branches is rather varied. The convertibly accounted export is most profitable in the machine and food industries, followed by the ruble export. The order in light industry is: domestic sales, convertible, then ruble export. A similar order has also developed in metallurgy, but at an extremely low level of profitability. In the chemical industry--similarly to industry as a whole--highest profitability can be achieved in the ruble export, but this is followed by domestic sales, and the profitability of convertibly accounted export is very low.

Examining the profitability of sales, we see that even though the profitability of convertibly accounted export has increased more vigorously compared to 1982 than that of the other relations, it still does not reach the profitability level of the moderately improving ruble export. In the development of export's average profitability the definitive feature was profitability achieved in group III in both relations (by large exporters). But these enterprises reached significantly lower profitability in ruble export than those which qualify as large exporters in only this relation.

Figure 2.



Megjegyzés: A konvertibilis elszámolású exportban már nagy exportőrnek számít az a vállalat, amelyik évi 150 millió forintot értékesít ebben az irányban, a rubel exportőrök között ez az értékhár még csak közepes helyet jelent.
— Az % százalékos arány az Árszabály besorolásának felel meg.

- Key:
- Reference number, identification
 - Large exporters in ruble relations
 - Large exporters in convertible relations
 - Large exporters of both export relations
 - Smaller exporting enterprises
 - Enterprises selling domestically
 - Criteria for forming the groups
 - Sales income from ruble export (A)
 - Sales income from convertible export (B)
 - Sales income from ruble and convertible export (A, B)
 - Sales income from ruble and convertible export (A, B)
 - Ruble sales income as percentage of domestic sales income (C)
 - Sales income of convertible export as percentage of the domestic sales income (D)
 - Value limit
 - Number of enterprises
 - Share of industrial sales income, percentage
 - Ruble export
 - Convertible export
 - Domestic sales

/Notes to Figure 2 continued/

Note: In convertibly accounted export an enterprise is considered a large exporter if it sells 150 million forints in this direction. Among ruble exporters this value limit represents only a mediocre place.

--The 5 percent ratio corresponds to the price regulation classification.

The profitability of domestic sales has moderated somewhat, thus this sales direction continues to provide the enterprises with the lower profit.

In those branches where the weight of enterprises listed in group III is significant also in domestic sales, domestic profitability of the enterprises falls short of the profitability level of enterprises belonging to group V which sell decisively in this country.

The ratio of profit-to-equipment and wages, profitability of the economic operation as a whole has not changed significantly in industry in the last 2 years. Average profitability was exceeded the most by the profitability level of the large ruble exporters (group I), and the difference increased in 1983. Even though the difference from industry's average moderated significantly at the smaller exporting enterprises (group IV), their profitability was also higher than the average in 1983. The profitability of the largest exporting enterprises (group III) was only 0.4 percentage points above the average in 1982, and the difference increased to 2 percentage points in 1983. The profitability of the largest convertibly accounted exporters (group II) was somewhat lower in both years than industry's average. The profitability of the enterprises selling domestically (group V) also remained below the average but here this shortfall has increased this year (from 1.5 to 2.2 percentage points).

Taking all this into consideration, we can conclude that in contrast to previous years, in 1983 the conditions of economic operation, and the market circumstances created more favorable conditions mostly for the enterprises which fulfill an important role in export, improving their income position. This can be felt especially at those 64 industrial enterprises which are equally definitive in the development of ruble and convertible export relations, but whose role is not negligible in domestic sales, either. These enterprises achieved results which significantly surpass those of a year earlier, even in spite of the decrease in net production value in 1983. This circle realized 97 percent of the result increment generated in industry as a whole. At the same time, interest in the results by the smaller exporters who increased their production values by 4-6 percent, and by the enterprises which sell mostly domestically, did not reach that of the year 1982.

HUNGARY

VIRTUES OF TRADE FOR PROFIT DEFENDED

Budapest OTLET in Hungarian 5 Jul 84 p 4

[Article by Katalin T. Forgacs: "Interest and Whip"; passage enclosed in slantlines printed in italics]

[Excerpts] "Economic regulations, the mark and economic competition should create the kind of internal economic conditions that will stimulate and constrain all participants in management towards the development of results and accomplishments in a flexible, accommodating way." (Excerpt from the 17 April 1984 position paper of the Central Committee of the Hungarian Socialist Workers' Party.)

Homo mercator viaux nunquam potest Deo placere--or: The tradesman is rarely if ever pleasing to the Lord. So taught the church; and in the spirit of this belief it forbade the charging of interest. Religious morality went on to condemn commerce, considering commercial profits to be a threat to salvation. After all, the goal of work is not the acquisition of wealth, but the maintenance of that condition into which we were born, while we patiently await our passing from this temporal existence into eternal life.

It is inevitably this fairy tale in this spirit that comes to mind when I read violent attacks against people who are importing personal computers into the country, in a pretty innocuous way, in the hope of making a profit. These sinful mortals buy these machines, not for their own personal use, but for the purpose of selling them, and what's more, in the hope of making a profit.

I would rather not delve into calculations here to determine how much the entire country benefits from the fact that these "individual profit seekers" are importing the most sophisticated technology at the expense of their own foreign exchange conversion capacities. It can't really be measured in money. It would also take us too far afield to describe how in countries practicing planned economic and tariff policies, new technology goes onto the market at a relatively low cost, rather than having the prices for it artificially increased. In view of such worthy reasoning it would seem that the ears of those who incessantly flog away at only individual profits remain closed. And here's the attitude that is truly irritating. Why is individual financial gain still condemned by so many, often, I must add, hypocritically.

A great deal of historical scholarship has proven the inestimably important role of trade in the emergence of Europe from the Middle Ages. Important transportation routes and markets were built up by the stimulation and financing provided by merchants. History also witnessed the earliest spread of vernacular literacy in those countries or regions where trade flourished most readily: in Italy and Flanders. In these places merchants wrote contracts with each other in their own native languages, thereby breaking down the Catholic Church's several centuries old Latin culture monopoly. And what was the springboard of that period's mercantilism, if not the acquisition of personal profit? In his excellent work entitled "The History of Medieval Economics and Society" Henri Pirenne writes, "...a few hundred kilos of spice and a few dozen bolts of fine cloth were guarantees of profitable marketability..to get rich..it was enough to become associated with some venturesome partners, and together look for territories where the products destined for export could be bought cheaply, and finally, to transport them to market... speculation, the starting point of these kinds of transactions, is therefore a major factor which contributed to the first mercantile fortunes."

Cities and guilds were then born of these fortunes. And the framework for the circulation of money, the foundations of commercial transactions valid to this day, were also laid down about that time. Urban administration, market places, ports, roads, and buildings were all born. The majority of countries were able to emerge from the Middle Ages as a result of medieval trade and city development.

This trend also took place in this part of Europe, albeit at a much slower pace than in the Low Countries or in Italy. For some time we've been able to enjoy the pleasures of vernacular literacy in this land as well. But it's another matter that there is also a difference between knowing how to read and knowing how to read. It's not so easy to get the point by reading from a distance. One wonders if anyone was surprised by the following phrase in a statement made this year by Imre Pozsgai, chief secretary of the Patriotic People's Front?

"It is beyond argument that the Hungarian Socialist Workers' Party already in 1957 took the first enterprising steps to bring interests into proximity with reality through a balanced perspective. I believe that the tripartite separation of the realm of interests into individual, group and societal interests is historically significant.... It breaks...with the illusion according to which in socialist society there is an exact correspondence between the individual's and society's interests. It is a significant discovery that society's interests are not in some separate sphere which exists on a higher plain than things and relations, and which one has only to perceive and then to follow accordingly...."

The wanton flogging of individual profit-seeking should then finally be abandoned. Those instances when individual or group efforts also serve society's interests should be joyfully welcomed. Governments with a modern system of taxation only regulate acquired incomes to the extent that the

regulation does not infringe on the interests of the individual, or on its progressive role. In our country as well, the interests of justice cannot be served by individuals who seek to obstruct the means of producing income before that income is even produced. Family incomes should be regulated after they've been earned through a better personal income tax system and through a social policy geared to different standards of living.

Of course, this can only come about when, sidestepping all hypocrisy, we recognize the potentially progressive function of individual financial interests.

12233

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HUNGARY

LABOR MARKET SITUATION ANALYZED

Budapest NEPSZABADSAG in Hungarian 20 Jul 84 p 4

/Article by K. L.: "Jobs and Career Beginners"/

/Text/ The State Wage and Labor Office prepares annually a thorough study on the work placement possibilities of career beginners. For many years the main finding of the survey has been that in general the job supply is ample, although in several skills, occupations, and various geographical areas placement difficulties do occur. This is also true for 1984, with the difference that the demand for career beginners has moderated somewhat but is still very brisk.

More Difficult for Women

This year 114,000 young persons who have finished their studies are seeking work. The job supply is 30 percent greater than this, and in fact on the basis of experiences in earlier years it may be assumed that the job supply is even greater because some enterprises do not report their labor requirements. The ratio of unspecialized youth is a rather high 28 percent, while 60 percent have secondary training and 12 percent have a higher education.

The study of the structure of manpower supply and demand shows an interesting and characteristic picture for our economy. According to the study, the semiskilled and unskilled find jobs the most easily, and they are followed by the skilled workers. Those with a higher education have fewer opportunities for choosing among jobs. It is the most difficult for those who have finished secondary school and choose an intellectual occupation because the employers want to fill most advertised, nonmanual jobs with university graduates.

Labor experts attribute this phenomenon less to the high level of our production and more to the wage ratios; it is possible to hire university graduates for relatively low pay even for jobs that do not require higher education expertise. (It is characteristic that some employers do not differentiate between university and secondary school training although the knowledge acquired in these

two types of schools is not at all the same. It is favorable, however, at least from the viewpoint of the placement efforts of university graduates that 702 research institute jobs were advertised this year. It is another matter, of course, whether this is in harmony with the obligation of the research institutes to cut personnel.)

The general experience is that it is much more difficult for women to find jobs than men. The ratio of female career beginners is 45 percent, but for years now only 34 percent of the advertised jobs have been for women. Not counting those with a higher education, there are 93 jobs for every 100 women to be placed. A role is played in this by an improper attitude of looking down on women labor, but also by the fact that the training of women is in general lower and their career choices less varied.

As compared to recent years, the number of jobs being offered increased in six counties, stayed even in six, and declined in seven counties and in Budapest. The worst situation is still in Szabolcs-Szatmar county; according to our estimates 700 career beginners will not find a job at all, and another 1,500 young persons will find jobs only in other counties, having to take on the burdens of commuting. According to the data, job placement difficulties have also increased in Hajdu-Bihar county.

Wages Vary

Thus we must also interpret in a rather differentiated way the general findings regarding favorable job placement possibilities. Although it is true that ample jobs are offered to those who have finished eight grades or even fewer (32,000 jobs await 22,000 career beginners). in certain small districts of Bekes, Borsod, Fejer, and Heves counties--chiefly in the villages--here are relatively few appropriate jobs; and in Szabolcs and Hajdu counties there is a significant job shortage.

Sixty percent of the jobs being offered by enterprises and cooperatives to those who have finished general school are for semiskilled jobs and 40 percent for unskilled jobs. Most of the young people can be employed in industry, and they are welcomed in a number of skills in shortage, where after acquiring appropriate knowledge they can work as semiskilled workers, and in fact can subsequently go into skilled training. Beginning wages range between 2,300 and 6,000 forints; the low starting wage is for sewing jobs and the high starting wage for MAV /Hungarian State Railways/ track workers.

Those who have finished auxiliary special-education school are in the worst situation. Three thousand young persons finish their studies every year, but only 1,000 find appropriate jobs.

It is not simple to find jobs for the 11,000 young persons who finish high school (gymnasium). Only one out of two finds appropriate work; scarcely more than one-third of the jobs offered to them are intellectual--the rest are for unskilled or semiskilled work. It is interesting that despite the chronic problems of career placement, the interest in Budapest for high school (gymnasium) schooling is extremely high, with several thousand applications submitted every year. Public opinion in Budapest does not regard high school (gymnasium) and vocational secondary school as being of equal value; the prestige of the latter--let us admit it, sometimes for good reasons--is much less. On the other hand, the judgment in the provinces is different; there the popularity of the of high school (gymnasium) has declined,,and for years now it has not been possible to fill admission quotas.

Most of those who finish vocational secondary schools have no problems in finding a job (a total of 20,000 annually). But those who finish without acquiring a skill encounter difficulties, as well as those who choose some popular skill. In the provinces, for example, there are not many jobs in the field of economics, automobile traffic, nurseries, commerce and the restaurant industry, and in some places it is also difficult to find jobs for road and railroad construction workers, bridge builders, and hydraulic and chemical industry specialists.

Skills in Shortage and Popular Skills

Wages vary extremely according to skills. In the very popular auto mechanic line of work they pay a beginner between 2,500 and 2,800 forints, while as a lathe operator, regarded as a skill in shortage, a beginner may receive as much as 5,000 forints.

The 46,000 young workers who step into skilled jobs this year are being offered 64,000 positions. The placement chances are the best for beginning skilled workers, the demand for whom is great in all areas of the country. The most sought after are those in traditional lines of work: locksmith, lathe operator, miner, moulder, welder, electrical mechanic, spinner, weaver, stonemason, carpenter-scaffolder, tinsmith, plumber, and livestock breeder. Some placement problems need to be anticipated in some popular lines of work. In most places there are an adequate number of auto mechanics, home appliance repairmen, radio-TV technicians, hairdressers, beauticians (one should reflect that these are all lines of work where tipping is customary). Generally, young skilled workers are offered about 3,000 forints in wages, although in several agricultural and construction industrial lines of work beginning pay may be as high as 5,000 to 6,800 forints.

Of the 3,000 young persons who finish specialist schools, there are enough jobs for those in the health field. Stenographers and typists

find it difficult to obtain jobs in the provinces, but they are in shortage in the capital city. This year 15,000 young people finished institutions of higher learning, of whom 10,000 find jobs in their career path. The number of advertised jobs is two and one-half times as great.

Engineers have the best placement possibilities (there are three times as many positions as available graduates), but there is a similar situation with economists and agronomists. Philosophers and landscape specialists find it more difficult to be placed.

The present survey of the State Wage and Labor Office also establishes that the starting pay for university graduates has increased substantially. Last year, for example, most jobs offered 3,000 to 4,000 forints, but now the going rate is 3,500 to 5,000 forints.

6691

CSO: 2500/517

FINANCE OFFICIAL COMMENTS ON THE ROLE OF BUDGETARY INSTITUTIONS

Budapest NEPSZABADSAG in Hungarian 28 Jul 84 p 3

[Article by Dr Lajos Kallai, Deputy Finance Minister: "More Efficient Management: Financial Conditions of Budgetary Institutions"]

[Text] Budgetary institutions realize important social objectives in our country, and their economic significance is also growing. Last year, their operations required nearly one-third of government spending or 24 percent of domestically expended national income. A large part of their expenditure is supplied by the government: Out of 172 billion forints, 131 million is provided by the state budget, which is supplemented by income from their own services. Of this sum, over 40 percent directly supports public health, educational, social and cultural services, while the rest is allocated to collective consumption, e.g. economic provisions, academic research, management and law enforcement.

Preserving the Level of Supplies

In the last decade social expenditures have grown at a rapid pace, far exceeding the growth of national income. This growth was caused primarily by the expansion of the institutional network and price increases. But to attain the fundamental goals of social policy, it was, and still is, necessary to implement concrete, centralized austerity measures. In the past few years, these efforts have brought significant results. Thus, for example, government support declined by 2 billion in 1982, and by 1.5 billion last year.

Assessing Possibilities

In order to moderate the growth of expenditures--weighing the objectives of social policy--we drew up an order of priorities among our development goals. With an increase in government support, those programs which provide basic services for a broad spectrum of society enjoy certain advantages, while those services which satisfy significant, but largely qualitative needs are pushed into the background. The modernization of the management organization structure has begun and has already yielded results. In this framework we have replaced some of the traditional forms of services (agriculture, public roads, water works), research, and continuing education with new business

and enterprise forms. The governmental and service functions, which nowadays are still often confused, are slowly being separated institutionally. As a result of this, services will become increasingly self-supporting.

Organizational restructuring that has been and is being promulgated resulted in the more efficient operation of the entire institutional structure. A good example of this, first of all, is the creation of integrated structures in health care, the local Economic Technical Supply and Service Organizations, the GAMESZ's. With the concentration of resources, these organizations are capable of fulfilling the objectives of a greater number of institutions more cheaply and more sensibly. A precondition of their successful operation is that they function as suppliers, and that the rights of professional management remain unaltered.

We must speak separately of the efforts to counteract price increases, which have been only partially successful. Institutions were permitted only to raise wages, at best, within the constraints of average ranges outlined in national economic planning. Profit motivated organs covered these increases, or parts of them, from surplus earnings, and from savings in the area of real expenses. With the improvement of labor management in 1979, the number of workers were reduced in several areas determined by the state. These included the central executive agencies, diplomatic corps and research institutions.

The moderation of increases in expenditures is also served by various individual efforts at saving. Such, for example, is the reduction in the number of public vehicles, the tightening of the sources of supply, limiting foreign trips requiring foreign exchange, magazine subscriptions, anniversary and advertisement publications and moderation of public relations expenses. Certain priority areas, such as health care, social services, and elementary education were less affected by these austerity measures. In these areas, the growth of government support has been greater than average.

Beginning in 1983, budgetary institutions, now under a comprehensively new and reformed system of administration, freed a significant amount of internal reserves. In this way more funds were made available for goals, which for the most part, given the limited support, would not have been otherwise realized. With the utilization of personal and in part institutional incentives more machines and premises were used with greater versatility. The modernization of generalized, as well as specialized regulations for various areas (scientific research, theaters, sports clubs, educational institutions, book publishing) augmented economic independence, giving institutions greater latitude regarding the utilization of earnings, including determination of wages and bonuses.

As a result of these reforms, the role of earnings, especially price and fee formulas found in enterprises, has grown greatly in the management of budgetary institutions. As a result of this, growth in government support has been less than growth in overall expenditures. And while the possibilities of implementing traditional austerity measures shrink, earnings can increase.

Personal and enterprise income is receiving a greater role in the construction and maintenance of the non-productive infrastructure. The value of voluntary social work at the local level has already reached the 10 billion forint mark. In addition, voluntary monetary contributions by the citizenry has reached 900 million forints, if we included the activities of associations and companies.

Attainable Objectives

As a result of central and local measures and given the experiences in the development of living conditions we can determine that we can achieve the major objectives of mid-range planning. The improvements in services to the population in the area of health care, the expansion of district and local physicians' services and modernization of instruments have been gradual. Despite the growing number of students, the conditions of teaching and education have improved. New institutions of public education have been created and others have been modernized.

In spite of these result, development has been slower than planned and necessary. The delayed realization of investments, modernization and growth of costs limit our forward progress. This is a source of tension primarily in connection with hospitals, nurseries and homes for the aged. We also see that even such significant achievements as free health care, in some instances, entail considerable personal expenditure. In many areas, the level of basic care is inadequate; as an example, a number of settlements don't even have potable water. Nor can we delay much longer the modernization and development of theaters and buildings which house public collections, and the repair of equipment in middle and upper level institutions.

As far as the future is concerned, state support of institutions which provide basic services, is growing, even if at a moderating pace; and thus basically uninterrupted program is assured. However, in many areas, state support, or at least portions of it, must be replaced with increased local autonomy, the creation of new forms of enterprises (for example, the formation of subsidiaries) and with strengthened local incentives. We must continue to prioritize our goals. Central funds must be primarily used to support those areas which help to achieve the goals of social policy. Therefore, we must lend differential support to health care, social welfare, education, culture, public education, basic research, state management, law enforcement, defense, as well as the fundamental infrastructural network, and within this realm the most important areas must be emphasized.

Moderation of the state's obligations is also motivated by other considerations. Between 1960 and 1983 the ratio of labor income to personal income declined from 80 to 65 percent, while monetary allocations and allocations in kind grew from 20 to 35 percent. At this rate, by the year 2000, labor income would only constitute one half of total income. There is no possibility for this, and in reality, there would be no need for it. It is necessary, however, that in a few years, especially in the interest of the growth of income producing capacities, labor income and allocation grow at the same rate. Given this, state resources turned toward compensation in kind must be slowed. Financial resources must be more selectively utilized, taking

into account social goals of the first priority--for example, the basic provisions for public education and health care.

Advantages of Democratization

It is also necessary that the fees for services rendered in specific areas gradually be made to correspond to levels of true cost. At the same time, in accordance with our interest in social policy, we must expand the possibilities for the needy to utilize subsidized and free services. All this serves to expedite the division of responsibilities. In some areas we must aspire even in the immediate future to force more payment for services provided which are of better than average level and quality.

Changing to a new system of management and working adequately under a new set of conditions is never an easy task. It is not easy because new administration implies new planning, bookkeeping and accounting procedures. These are not simpler, in fact, they are more complicated than their predecessors, but they promote sensible management. Therefore, based on our experiences to date, we are aspiring to simplify the administration, and to promote the widespread use of computers.

Finally, we must also mention something about the democratization which pervades the whole economy and society and which must soon become even more prevalent in our budgetary institutions. This democratization can contribute significantly to the increased efficiency in the operation of administrative units and to the expansion of resources. We must strengthen lawfulness and the precepts of the socialist ethic, which means that rights as well as duty and responsibility must be emphasized. All of this strengthens civic consciousness and leadership, which in the final analysis improves the functioning of social and economic mechanisms.

12618

CSO: 2500/519

FINANCE OFFICIAL SPEAKS OF CAPITAL ALLOCATION MEASURES

Budapest HETI VILAGGAZDASAG in Hungarian 28 Jul 84 pp 50-51

[Interview with Istvan Kollarik, assistant under-secretary of the Ministry of Finance, by Agnes Tibor, reporter: "Boiling Points"]

[Text] Using economic measures to regroup the money of enterprises into the hands of those who use it more effectively, reenforcing the economic role of banks, to draw free capital (in professional language: resources) into the economy--these are important elements in the further development of the economic guidance system. The "capital allocation" work group, carrying out the preparatory work on these problems, prepared the plans for further advancement by the end of April, after several months of debate. An elaboration of the concrete measures will be continued in the summer and fall and will be essentially concluded by 1 January 1985. What conceptions does the prepared material contain, on what points did the views crystallize and what decisions were already arrived at?--these were the questions put to Istvan Kollarik, assistant under-secretary of the Ministry of Finance.

[Question] In the course of the preparatory work for the further development of economic guidance there was much discussion in every work committee about expanding the possibilities for capital regrouping; many consider it the key problem of further progress. Why did this topic get into such a sharp spotlight?

[Answer] The profitability of investments is nearly decisively defined by how, for what purpose, and under what conditions they are made. In the economy, there always are free capital resources and there always are promising investment possibilities. The question is whether the two sides can get together. This essentially depends on two things. One is whether the economic institutional system has the channels which enable the flow of free resources to the most profitable fields and the other is whether the owners of money recognize the favorable possibilities, whether it is in their interest and whether they are willing to also move their fiscal resources through these channels--if they exist. With respect to the first

part of the question, many changes have occurred in this respect during the past years: since 1982, a statutory provision makes it possible that the enterprises transfer to each other, temporarily or on a permanent basis, developmental funds in such a manner that they also share the profit gained from the use of the transmitted funds; bonds, one form of the temporary transfer of resources, have been in existence since 1983. In my opinion, the range of commercial loans given by one enterprise to another can be expanded and the draft, a payment obligation by a due date, can be introduced within a short time--possibly by 1985. In addition to bonds, these devices are also capable of weighing the economic strength of the enterprises because it is obvious that not every enterprise will receive commercial loans by asking for it and the bank will not be willing to discount every draft. Thereby I do not want to say that the forms of capital flow among the enterprises could not be enriched further. For instance, the possibilities of a final transfer are still restricted. That is why a proposal arose in the work material for the eventual introduction of the institution of stocks, for instance, and for the further development of the forms of association. It would be important to expand the possibility for the final transfer of capital resources because such a source--since it does not have to be repaid--can lessen the fiscal burden of investments in comparison with loans while the investors most certainly would assert more forcefully the profitability aspects. How stocks could function under the conditions of the socialist planned economy, I cannot yet answer today: by the end of the year, we intend to examine the possible role, functioning and requirements of this security (and of the enterprise association form).

It is a much more difficult question why the money flows or does not flow from one enterprise to the other, and whether it would do so if a greater selection of forms would be available. In my opinion, this would require a behavior on the part of the enterprises much different from the current one in many respects, not thinking primarily in terms of allowances in kind but decisively striving for profit. Today--to put it mildly--this is not a general characteristic. Let me cite an example: recently, one of our banks offered high interest rates to the enterprises which, instead of their own field, were willing to invest their money in other types of activities producing higher earnings. There were no takers. The enterprises consider growth in the natural sense more important than money. This view obviously cannot be changed by persuasion. A modification can only be expected from an increased enterprisal independence and responsibility accompanying the development of economic guidance as a whole, from an increased interest in profits and the gradual emphasis on interest in assets.

[Question] Today however--I do not know whether you agree--the system of central withdrawals also has an effect contrary to economic efficiency. How could the enterprises be made accountable for profitability aspects if they are deprived of a considerable fraction of their resources by the budget--sometimes not even in a form previously defined by the regulators--in order to redistribute them again--sometimes not even on the basis of economic considerations.

[Answer] Unfortunately, this year we had to increase again the measure of central withdrawals, we have centralized 16-22 percent of the development

funds. The explanation is both simple and complex. It is simple insofar as, in the interest of fulfilling the foreign trade balance requirements, the sums of the national product earmarked for domestic use had to be restricted, within them also the enterprise development resources. It is complex insofar as withdrawal, as a procedure, is actually forced upon us by the low level of willingness to save on the part of the enterprises. On the other hand, the trend in the willingness to save is somewhat of a reflection on the economic mechanism as a whole, its current level of development; it is a direct projection of the ranking between growth in the natural sense and the importance of money--mostly in favor of the former--on the part of the enterprises. Today's trend is, in general, characterized by spending the money by any means--often contrary to profitability considerations--and this deflects the investment process from the balance requirements. The frequent counter-argument that withdrawal by the state is the precise cause of the wasteful spending--although it undoubtedly contributes to it--is not quite correct: in the 1970's, when we did not restrict the resources in the interest of "enterprise stability," it was mostly the very strong wave of investments, which produced far less than the desired results, which led to the severe foreign indebtedness. The desire for investment on the part of the enterprises and their inclination to save, in a trend attunable to the balance requirements, is essentially a function of the increased interest in profitability and assets and, consequently, of the development of the entire economic guidance and mechanism. Here a very important question is whether a situation would develop where the managing organizations can survive on the income derived from their own activities alone, and they would either have to bear the consequences of the differentiation reflecting the effectiveness of their performance or they could enjoy them without restrictions. To do this--in addition to planning, regulation and the development of the organizational framework--a new order of procedures must also be worked out, among others, for enterprises producing at a loss or having insufficient funds (chronically insolvent). The essence of it would be that--as opposed to the current general method--resolution would be made decisively on the basis of the debtor-lender relationship, with a judicial process or by agreement. It would come to a central intervention only if important state or social interests were at stake. The procedure is expected to be developed in principle by the end of the year and with its concrete rules by next year.

[Question] The enterprise is under strict regulations as to which fund it can spend for what purposes. According to my information, together with the various risk funds, there are about 20 types of enterprise funds and the "hardness" of the individual funds is greatly different from one another. Do you find it conceivable to grant freedom of decision about investments without the "convertibility" of the enterprise funds?

[Answer] Of course not, and I agree with those who say that the compulsory, detailed distribution of the enterprise resources should be terminated. (Incidentally, let me note that the duality of the outlay and of the taxed profit, because of the greater hardness of the former, can never be discontinued, of course.) As a matter of fact, I would consider a single reserve--built from the untaxed profit--sufficient; it would serve as

insurance against all types of risks, while the enterprises could spend their taxed profits as they see best. This sum could be used just as much for increasing individual incomes as for investing within or outside of the enterprise; of course, with taxation consequences defined in the regulations and depending on the mode of utilization. I feel that there is agreement among those involved regarding this problem and, for this reason, significant simplifications can be achieved in the course of the 1985 modification of the enterprise income regulations.

[Question] According to many, it would be an indispensable requisite for the regrouping of money among the enterprises to establish an institution where securities could be sold and bought, and information about current prices would be available. Is there discussion about a stock market among the suggested developments?

[Answer] The existence of stocks makes it logical in principle to think about the establishment of a so-called secondary market. At the same time, practice does not point to a great demand for it--at least for the time being. The committee was of the opinion that, at this time, it is not necessary and it would not be right to organize such a market from above but it would be justified to examine what sensible forms it could take. Of course, we would find it expedient if a few or several financial institutions would engage in the circulation of stocks as a service based on real demand, or if certain organs of the press would include among their services the printing of current stock prices. On the other hand, the conditions for the functioning of drafts must be mentioned. Namely, should there be drafts, banks willing to discount would also be needed while the central issuing bank would have to determine, by means of rediscounting, its limits in tune with the credit policy. The relevant ideas have already assumed a concrete form but for drafts to come into being, a decision by the proper authorities is still needed, of course.

[Question] Thus, with the further development of the economic guidance system, the role of banks will increase. Will their economic independence also be increased? I have in mind that, today, they are often forced to turn away from loan agreements because they also have to bear the consequences of many earlier decisions, and not merely those originating from them. For instance, they must extend the term of loans which had originally been given to the enterprises not as loans but as state capital allotments and, in the form of loans, the enterprises have difficulty repaying them. It seems that the banks play a somewhat subordinate role compared with the plan and the budget. Will there be change in this respect?

[Answer] Subordination is not the problem; rather it is a well defined and always previously reconciled sharing of work and tasks which also includes the financial consequences of certain central decisions. In the context of developing the investment decision system, the thought has been greatly emphasized that it is one thing to decide about investment itself and it is another thing to decide about the financial resources. Investment decisions should be made by those (organs, enterprises) which want to accomplish it but to decide about who and under what conditions will furnish the money is the task of the owner of that money. Such changes would also increase the banks' autonomy.

[Question] From the above discussion I think that a business character can emerge mainly in the activity of the small finance institutions. During last year, several of these were established. But their license is mostly for development alone, their activities are quite strongly limited with respect to branches, their capital is not overly large and the parent institutes--mostly the large banks--have a significant voice in how it is spent; the new institutions do not have the right to manage accounts and thus they cannot have an insight into the financial situation of their clients, and they have no right to collect savings and thus they cannot increase their lending capital. Is it possible to speak of incentives and competition under such conditions?

[Answer] The question is justified and naturally, the long-range goal is to also give these financial institutions every right which would bring them to equal terms with the large banks in the market competition. Regulation of the small finance institutions is currently in progress. For the time being it appears probable that financial institutions specifically requesting the right to collect savings can get it as an individual permit. Some things must not be forgotten, however. Part of these finance institutions was built on the profitable investment of funds which were--until now--distributed in practice without economic efficiency requirements. Thus, there already are results. Another aspect that must not be ignored is that even a banking management built on profitability will not pump more investment money into the economy than what is available; thus not everyone profits from the matter, only the better managed enterprises.

[Question] Among the proposals aimed at developing the banking system, a separation of the issuing and commercial bank functions was also present although the formulation of this standpoint was preceded--as I heard--by a rather sharp discussion. Why is there need for separation and what was the essence of the divergent views?

[Answer] The discussion centered on the question whether an expansion of the single level or of the two-level banking system would be desirable in Hungary. It is very important here that we talk about expansion since even the most devoted advocates of the two-level banking system clearly see that the creation of the necessary conditions requires time. To say nothing else, the training of a sufficient number of banking experts so that more banks could function does not happen from one moment to the other.

A separation of the functions is necessary to make the role and responsibility of the issuing bank, in guiding monetary policy, more clear and more unequivocal; while in lending activities, to give more weight to business considerations and to the enterprise-economic limitations of lending. There is agreement that the issuing and commercial bank functions must be separated. The views differ whether the separation, in the case of the Hungarian National Bank, should be accompanied by an organizational isolation or not. The stand of the Central Committee of the MSZMP and the governmental resolution dealing with the guidelines of economic guidance system development finally adopted the position that the isolation must be carried out within the Hungarian National Bank. At the same time, it provides broad possibilities for sections of other banks and for finance institutions to function as commercial banks.

RECURRENT FINANCIAL FARM PROBLEMS ANALYZED

Budapest FIGYELO in Hungarian 26 Jul 84 p 21

[Article by Dr Bela Hornok: "Reproducing Losses"]

[Text] The system of resources for the economic management of agriculture differs from the other branches of the economy. This is primarily manifested, for instance, by price regulation of which the system of conditions grows out of the characteristics of large enterprises which operate under average conditions. As a result, cooperatives operating under worse than average natural conditions must be brought into a situation--primarily by price supplements and other fiscal measures (for instance, developmental supports)--where the expenditures can be recovered from the current production.

Exhausted Reserves

The experiences of past years show that, as a consequence of price and fiscal regulations which narrowed the resource base, floods and inland waters, last year's drought, and measures frequently taken and carried out without adequate circumspection, the fiscal conditions for an expanded new production by a significant proportion of the agricultural cooperatives could not be provided, or could only be temporarily provided by means of some ad hoc procedure, even after settlement of past losses. Thus, about 300 agricultural cooperatives have been unable to reestablish a fiscal balance for years, even after repeated loss settlements.

It is noteworthy that the amount of the deficit which could be covered through their own resources has decreased and the proportion of the fiscal deficit which could only be settled in the framework of a loss-compensation procedure has increased. This is associated with the fact that, in cooperatives managed with repeated losses, the financial reserves gradually became exhausted. It is increasingly obvious that even repeated financial compensations failed to resolve the problem. Some of the reasons are of an objective nature.

Scenario of the Settlement

The basic causes producing financial deficits are also related to production conditions. In the enterprises involved, the available basis of production is limited: the value of fixed assets per hectare is only 80-85 percent of that of the average cooperative. A similar tendency manifests itself also

in the area of supplies. To this must be added that the usability of the fixed assets is worse than average in 58 percent of the cooperatives surveyed. The buildings for housing animals are also antiquated. In these cooperatives, the regular maintenance of a run down machine pool, fully depreciated, also requires additional expenses. In addition to a lower equipment supply, labor force density and the supply of experts are also less favorable. In several cooperatives, the area size and the available labor force are not in balance. The various tensions derived from this also contributed to the development of financial deficits.

The cause of the repeated, chronic lack of fiscal balance is increasingly associated with the settlement of financial losses, or more precisely with the limitations set by ordinance No 20/1981 (28 July) P.M. [Ministry of Finance]. In accordance with the ordinance cited, the Ministry of Finance and the Ministry of Agriculture and Food Industry (MEM) systematically ignore, when settling losses, the recommendations of the megye and of the interested agencies, and employ the following directives for loss settlements:

- Existing resources owned by the enterprise involved (security, reserve, road maintenance, improvement and real property-amortization funds) are the primary source of settling financial deficits.

- For that part of the developmental fund deficits which cannot be covered by their own resources, the cooperatives receive credit for settling developmental fund deficits, in accordance with the applicable ordinance or with credit policy conditions.

- For plant production losses due to natural causes, not reimbursed by State Insurance and not lowered through its own resources, a grant can be obtained by a disadvantaged large enterprise if it cannot cover losses from its own resources within 2 years, and by a non-supported enterprise if it cannot do so within 3 years.

- Losses in animal raising derived mainly from a high mortality rate or from unscientific feeding methods can, in general, be extended only loss settlement credits. For such purposes, a grant can be made only in exceptional cases--primarily because of the rippling effect of the high self-costs of plant production by disadvantaged enterprises.

- The extension of the due dates of loan payments or of budgetary obligations (labor wage tax, obligation to repay a revolving fund supplement) is resorted to in several cases.

- Among the restrictive measures applied as a condition for loss settlements, in the case of wage restrictions--in the interest of securing a warranted measure of employment--the settlement proposal restricts, in general, the aggregate payroll and not the wage levels.

Based mostly on experiences in Borsod and Szabolcs Megyes, it can be concluded that one of the deficiencies of the loss-settlement regulations in effect is that, in general, they fail to carry out a comprehensive analysis of the

management, or a thorough elucidation of the reasons for the shortage of funds, which would be absolutely necessary in such cases. For objective reasons, in the interest of reestablishing the financial balance, a resolution of the causes of deficit management and the execution of adequately planned and recommended measures cannot be demanded in every case. The reasons connected to the constraints derived from the ordinance are as follows:

Merely Anesthesia

The lack of funds to provide the means necessary to make improvements and to develop a production structure adapted to the local conditions in flood and inland water regions.

It comes to such massive withdrawal of resources--amortization, reserve fund, sale of supplies--that a scarcity in the revolving funds ensues in subsequent years which can only be bridged temporarily by taking out high interest production loans.

The loan to cover losses or deficits in basic funds and the 14 percent interest costs lead to liquidity problems in the ensuing years.

The loss settlement procedure is prolonged and the decision by the Megye Council Executive Committee is announced only in June. By that time, the interest burdens of the production loans have eaten up the better part of the extended grant. To avoid this, advance grants and loans would be necessary, to be issued upon closure of the budget accounts.

Withdrawn Support

The lending practice of the bank, namely the fact that the due dates on production loans are not attuned to income schedules, is the source of additional liquidity problems.

In some of the cooperatives, a prolonged absence of balance is caused by the fact that, after a merger, the cooperative may move out of the supported group and thus, subsequently, it also loses the rebates which can be withheld from price supplements and production taxes. This is unjustified mainly because 90-95 percent of the production by cooperatives with unfavorable endowments are derived from support given toward production improvement. A switch to another agricultural production branch is a problem which has arisen during the last year or two--mostly in durably flooded and inner water regions. In the framework of individual settlements, in the Borsod Megye village of Cigad, the committee prescribed a change in the agricultural branch as a condition of the settlement. Subsequently, the value of the cooperative's arable land increased to above 18 gold kroner and the cooperative lost its supported status. As a result, the cooperative lost 11 million forints support in the form of price supplements and production tax allowances. This sum being about 60 percent of its deficit in 1983.

Without modification, the current settlement practice does not remedy the lack of balance, it merely shifts it to the subsequent years and thereby it produces

renewed stresses in the financial situation at a later period. The increased use of next year's sources of income greatly limits the development possibilities precisely in cooperatives with a low implement supply which are incapable of expanded production and are unable to change their production structure in accordance with the demands. This loss settlement is always after the fact and is usually limited to the settlement of financial deficits resulting from an accumulation of "management and guidance errors" over several years.

In the framework of financial settlement, one must break with the incorrect practice which settles losses only after they had occurred and is limited to the settlement of effective losses. In handling financial deficits, objectivity, prevention and the causal principles ought to prevail.

2473

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CHANGED REGULATORS REDUCE INCOME FROM ANIMAL HUSBANDRY

Budapest FIGYELO in Hungarian 26 Jul 84 p 21

[Article by Ferenc Bogardi: "Falling Farther Behind"]

[Text] Rationalization of the production structure is a matter of vital importance to the enterprises because the profitability of agricultural activities has been reduced by the changes in the regulatory system. In the Arankalasz agricultural cooperative of Mezokeresztes also, the profits needed to achieve the enterprisal goals must be made under increasingly more difficult circumstances. Our productive activities must be evaluated with care and by considering every economic aspect, and it is necessary to reevaluate the earlier production practice accordingly.

The profitability differentiation among agricultural activities is increasing. Last year, for instance, for every 100 forints used for plant production costs, there were 32 forints across the branch profits while these only amounted to 3 forints in animal husbandry. Discrepancies in the individual production branches appeared increasingly. For instance, in sunflower production, the profit per 100 forints of production costs was 81 forint, while in cattle fattening it was only 9 forint and in raising breeding chickens, 100 forints in production costs produced a 12 forint loss.

The profitability of the animal raising branches of the agricultural cooperative, but also of the main animal raising branch as a whole, was far behind that of other agricultural activities, and this lag has increased even more with the passing of time.

It should be noted that a comparison based on the accounting data makes animal raising appear in a better position than it is in reality. As a result of internal use at cost, narrowly defined, there already are 10 forints of total branch losses for every 100 forints of production costs.

The differences existing in the profitability of the agricultural branches appeared similarly at the national economic level. The profitability differentiation among the branches is determined primarily by national economic causes outside of the enterprise, such as the price system and also the taxation and support systems.

Animal raising is in a disadvantageous position. The demand to increase profits naturally relegates to the background the less profitable animal raising branches and those producing at a loss.

I can also formulate it so that it appears purposeful to lower the animal raising production of the Aranykalasz agricultural cooperative in Mezokeresztes and to liquidate some of its branches. The competitiveness of animal raising is further weakened by the changes which had recently occurred in other, seemingly independent external and internal circumstances. The competitive position of the main branch was also weakened by the increasing budgetary curtailments and by the freezing of obligations of the developmental funds.

Increasingly fewer enterprises can afford to maintain their low-profit or losing animal raising branches, and they will be forced to use the convertible capital tied down in animal raising for other, more profitable activities. This process is also promoted by the fact that the economic sensitivity of the enterprise managers has increased and has been awakened, and a true economic interest is also being realized in enterprisal decisions.

The competitiveness of animal raising, with its great demand for implements, was also decreased by the rising interest rates and credit burdens. The disadvantage of animal raising in competing for capital has increased. This competition is real because the capital withdrawn from the low-profit animal raising activities lowers the demand for credit and, as a new alternative, can also be spent on buying bonds. In a peculiar fashion, the competitive position of animal raising was also set back by the increasing profitability of plant production. This led to a rise in the value of arable land and increased its profit demand. As a result, animal raising has also fallen behind in the competition for arable land.

These latter factors further increased the impatience of the enterprises with animal raising. Increasingly fewer of them accept the use of other branches to compensate for the profit absent in animal raising, and the deadline of "waiting it out" had also passed. Today, there is a decrease in the number of heads of cattle and sheep in the enterprises and--assuming no change in the national economic conditions--this process of decrease will also get worse in the future.

On the other hand, the national economic plans count on an increase in animal products. Nevertheless, the regulatory system fails to transmit this requirement toward the enterprises. Therefore, there would be need for providing an incentive for animal raising to the enterprises as soon as possible, and for making the branch competitive because a future intensification of the already appearing negative occurrences can become the source of significant national economic losses.

2473
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SUCCESSFUL ENTREPRENEUR REQUESTS INTERVIEW

Budapest OTLET in Hungarian 5 Jul 84 pp 22-23

[Interview with Gyula Szigeti, partner and general representative of Electricbau, by Janos Serenyi: "Small Business Discussed with Candor: 'I've Been Able To Outbid Several Companies by Virtue of Being Able To Make Decisions on my Own'," with a commentary by Dr Gyorgy Szepesi.]

[Text] In most interviews the reporter is the one to seek out the interview subject, but there are exceptions: "Excuse the phone call," said Gyula Szigeti, general representative of Electricbau, from the other end of the line. "But I must tell you that the distorted picture of small businesses presented by the press is irritating. The GM's [Small Businesses] statements make them look deserving of pity: describing how great the assumed risks are, how difficult it is to scrape together needed materials, how many obstacles there are, and how their earnings are only modestly above average. In my opinion, the businessmen described are either not full-blooded businessmen and have failed to conduct the necessary preliminary market research, or they are unnecessarily covering up the facts." With a story like that sitting in the street, or rather at the other end of the telephone, I was not about to pass up a chance for a personal encounter with a full-blooded candid small businessman.

[Question] I wouldn't dream of poking around in other people's pockets, but it seems to me that your phone call necessitates the following question. What kinds of salaries does Electricbau pay?

[Answer] There's no reason to conceal that we're profitable. Whenever an amount is received, only those individuals can draw upon it who worked on the given job being paid for. We are not developing any group formulas. Everyone decides for himself how much of his money he'll take and how much he'll leave in the till. They decide mostly on the basis of evaluating the tax keys and social security contribution levels. Several of us take home between 25,000 and 30,000 forints a month, and naturally there are some who earn between 12,000 and 15,000.

[Question] What does the company do?

[Answer] A few of the other partners and I were still working at Budapest Technical University when we discovered a vacuum in the field of servicing and planning in the electrical and construction machinery industry. There are numerous large companies with renovation type jobs in the 2-3 million (forint) range which are too big for small tradesmen, but mere crumbs for the big ones, and therefore are not worth getting done.

We also knew that we would be successful if in addition to planning we were to contract to do the work ourselves. The problems in this territory are well known; the cost of doing a job usually exceeds the planned budget, and the planner often assumes the availability of unobtainable items. We like to joke about the fact that there's no pain on the planning level. Paper never screams. We decided to plan for doing it ourselves, and this pleased our future clients as well.

We researched the market ahead of time, doing cost schedule calculations and working out our system of partnership percentages. The GM [partnership] was formed only after we were sure of being able to operate successfully.

The small initial team consisted of 30 to 40-year old individuals, none of whom had ever attained a thing financially, but who had the desire and the ability to achieve.

[Question] Did the changes in work style affect personal relationships among team members?

[Answer] The contact has become more rational. Gone are the days when we sat around at work discussing the previous day's TV shows, or the eating habits of our children. There simply isn't time for it anymore. Everybody is highly attentive to his own work, as well as to that of others.

We know that a satisfied customer will be back to do business with us again, and recommend us to others. One way we make sure is to sweep out the work space daily before leaving. Because the clock--the group clock--is always ticking, we can't afford to redo a job a second time because of sloppiness or carelessness.

[Question] The present seems to justify the self-confidence with which you went into business. Are you just as optimistic about the future?

[Answer] At the beginning we were self-confident because we were well prepared to do the job. Now the car has started moving forward, but we must begin getting ready for the successes of future years. To that end we are systematically expanding the sphere of our activities.

[Question] Give me an example?

[Answer] It shouldn't be overlooked that there is a highly demanding and particular consumer segment of the population with the ability to spend money. They are more than willing to buy a remote-controlled garage door opener, they have private swimming pools built, they want specialty lighting in their homes, etc. This means a new market for us. In my opinion, what's

more important is that small businesses, in fulfillment of the original goals, will find good opportunities primarily in the area of services to the public. For precisely this reason we've brought in a pastry chef as a partner. He'll be working in our soon to be opened bakery. By selling pastries for diabetics we'll be filling a longstanding unmet need. We are also starting a home appliance repair service which will employ four to five individuals. If they don't have enough work to earn their money the GM will assume the financial risk for 6 months. If however, orders are excessive and the planning work falls off we'll reorganize our forces into new groups.

[Question] Will the electrical engineer be repairing lamps?

[Answer] We don't have a problem with that; there's no pompous face-making here. Just recently in Szekszard we were laughing about how none of us would have believed that there would come a time when we would be pouring concrete at 11 pm in the middle of a downpour.

I should add that if we had the chance to grow in the proper manner, these kinds of task reassignments would naturally occur less frequently. The membership account has several million forints at present, although it's not divided in equal percentages. If we were to be changed from the GM into a small cooperation, which would allow more volume and more partners, the majority of the money would go for taxes, and what was left over would no longer cover start-up costs.

[Question] While you so openly discuss salaries ranging in the tens of thousands and investment sums in the millions, I can't help thinking that most people expressly avoid these subjects.

[Answer] There's nothing for us to hide or to be afraid of. It would be impossible in any case because of the strict accounting procedures being used. To earn the incomes I mentioned the majority of our members work in several different jobs. We don't have a labor representative or wage board representative. We know what has to be done, and how to do it right--through honest work.

[Question] Are you happy?

[Answer] There is some satisfaction in the fact that finally at the age of 36 I am the one who decides how far I can go. There have been times when I have been able to outbid several companies because I was in a position to make decisions on my own. The client made some changes in the pre-released job specifications, thereby automatically making it more difficult for those who had been authorized to bid on only one variation. Another thing that has happened is that a contract signed with a state firm has several signatures on one side, because of the division of responsibility, while on the other side my handwriting was the only one.

Commentary by Dr Gyorgy Szepesi

We are pleased that Electricbau is such a successful business and that its members are such satisfied people. But it is far from certain that our joy is shared universally. Certainly there are going to be readers who will slam down these pages fuming: "It's scandalous that there are people who run around boasting about earning 25-30 thousand forints a month." But Electricbau is not to blame, since its members--and this is indeed rare--have nothing to hide. Dismissing the eternal element of human jealousy, the discrepancy between incomes earned through honest work at these businesses and the salaries at official mainstream jobs points out well-known distortions in our distribution system.

Why isn't it possible to earn similar salaries in regular mainstream jobs through the same kind of disciplined, professional hard work? Why is there in some cases such a gap between income levels at the larger companies and establishments and the various types of legitimate and semi-legitimate, regulated and unregulated small businesses?

The answer points far beyond the sphere of small business. This paradoxical phenomenon can be explained partially by strict average wage regulations, but also by a certain ossified egalitarian attitude. There is a need for the improvement of the wage control process within the framework of developing the system of macroeconomic management in the near future. But this can only be fruitful, and can only resolve the occasional tension over current wage differences between large and small companies, if the corporate wage earner's attitude towards the management of work energy changes as well; and if the idea that it's also unjust for someone to get a regular salary for little or substandard work is recognized and put to practical use. Indeed that oft-mentioned "double standard" is in reality often not double at all. The basic standard for determining income levels must be set by the level of accomplishments, just like with the incomes of the partners at Electricbau and their clients.

The case of Electricbau illustrates another important point. It is still--in contradiction with our goals--difficult for various types of small organizations to be transformed from one legal category to another. If however, an economic working group like Electricbau develops an expanded profile as a result of financial success, then it becomes desirable both from a legal and from a financial point of view for it to adopt the status of a small cooperative.

12233

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HUNGARY

HEAD OF FUND FOR INNOVATIONS SPEAKS OF ENTREPRENEURISM

Budapest HETI VILAGGAZDASAG in Hungarian 21 Jul 84 p 10

[Interview with Erzsebet Birman by Richard Hirschler: "If We Don't Dare, We Won't Win"]

[Text] Our co-worker requested some information from Erzsebet Birman, the director of one of the first Hungarian funds for financing entrepreneurship. The Innovation Fund, under her direction, was created in 1980. The Hungarian National Bank, the National Technical Development Committee and some other special departments collected 550 million forints of capital for the fund, and it was given the right to found and manage enterprises. Now has she been able to fulfill her task, marketing intellectual products?

[Question] The Hungarian National Bank's Innovation Fund was the first swallow, and since then more funds for innovations have been created in Hungary. Can we claim that risk capital has appeared in our country?

[Answer] We can say this in the sense that our organization and other similar organs financing entrepreneurship make risky decisions in the hope of large profits. Our charter entitles us to exploit intellectual products. Very often we decide upon an idea, a technological process, product or special service when the decision is in fact irrational, and the results are unpredictable. The important thing is that we do not simply finance an investment, but participate with our capital in the realization of the idea from the beginning of the first stage and therefore share in future profits.

[Question] We do not hear of many similar undertakings.

[Answer] Do not be surprised--generally, in Hungary much less risk is involved in advancing simple credits for a sure rate of interest. A great number of financing enterprises do not assume any risk, rather they search for security and lend their money. The authorities and public opinion need time to accept the fact that in investing risk capital one has to also be prepared for failure. When a large investment approved at the state level fails, we take it quietly, understanding that it was the result of a collective decision.

Many people still do not understand that without risk there are no large profits, and as in the West, maybe after 50, 10 or 3 bad decisions, one comes which is so good that profits from it more than cover the other losses.

/Question/ Speaking with concrete numbers, how many forints have you invested and how much have you gotten back in the 5 years of your existence?

/Answer/ We have been called in about a thousand cases--we immediately evaluated one-third of them as hopeless, so we did not even begin to flesh out these projects or we could not get enough information about them from the initiators. We took an interest in about 300 projects, which we checked more seriously; we asked for a professional analysis, i.e., we spent money on them. In the end we turned down 60 cases, and among those 260 cases left only 30 proved successful; we are still working on the rest of them.

/Question/ On what basis do you decide to accept or turn down a petition?

/Answer/ We try to project how much it would cost to develop the idea and, if everything goes well, how much profit we could make. When it turns out that even in the optimal case we would still not make any money, we do not participate. For example, that is the reason why we turned down the proposition to develop a new type of motor.

/Question/ Would you give us some concrete examples of successes?

/Answer/ Mrs Jenő Nedeczki's wrinkle remover, Helia D, which will shortly be marketed in the United States is one such example. This idea was worthwhile to develop, finance the international patent rights and participate in development and management with our partner, Biogal.

/Question/ Speaking of patents, maybe the dollar income from Rubik's Cube would have been much larger if the inventor had immediately come to your fund.

/Answer/ At that time we did not yet exist, but to be honest, I do not know if I would have said yes to supporting the cube if Erno Rubik had come to me. That is why it is good that there are other organizations in operation similar to ours, because if one says no, another may take up the case.

/Question/ Would you also mention one or two unsuccessful trials?

/Answer/ One of them is connected with a logical game. We insured the purchase of expensive production capacity for the Pentagondodecaeder,

one of the multiangle variations developed from Rubik's Cube, but unfortunately it did not enjoy success on the market. This was in spite of the fact that we consulted with the very same foreign professional who made Rubik's Cube successful. I will give one more example, which is not a real failure, but did not fulfill our expectations. We gave some money to develop a completely new sheep raising system, the prototype operation was set up, but in the meantime the market abroad became saturated and state support for sheep raising buildings at home was discontinued. In fact, the business closed with the set-up of the prototype operation, which is profitable, however.

/Question/ These examples show that, as opposed to your Western colleagues, you do not invest in top-of-the-line technology.

/Answer/ That is true, but then that is not our primary task in Hungary. Besides, in my opinion we should invest in things which bring the most profit, the most dollars. This does not mean, of course, that in accordance with resources we will not support the application of electronics or biotechnological developments.

/Question/ Finance professionals have said that greater power should be given to financiers of entrepreneurship to broaden their managerial rights, make it possible to export on their own account, and take direct part in international cooperation agreements. It would also be good to strengthen cooperation between financing organs themselves in order to spread risks more widely. In order to make it easier to establish enterprises, enterprise law has to be modernized and financial markets developed. And last but not least, individual savers have to be more effectively drawn into enterprise financing.

/Answer/ The above-mentioned possibilities have already been granted in large part and I think they will be expanded over a larger area. In terms of the last-mentioned problem, I was approached by a private innovator who would like to invest his money--which, I would like to stress, was not obtained through speculation--in socially useful ventures. Next year we will act as a bank; therefore, we will also be able to issue bonds. It would be good if people proved their strong interest by buying these bonds.

/Question/ But if, for example, somebody would remember "Nedeczki bonds" he would not risk anything.

/Answer/ That is true, he would get his percentage, but his money would still enlarge the sources of money for innovations.

12647
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HUNGARY

ADVERTISING RESTRICTIONS CRITICIZED AS ANTIQUATED

Budapest MAGYARORSZAG in Hungarian 22 Jul 84

/Article by Agnes Horvath: "Advertising: Policy on Classified Ads:
Outmoded Prohibitions: We Are Being Prudish"/

/Text/ There has perhaps never been such a flood of classified ads in the newspapers as nowadays. We are amused by the classified ads that appeared in the past, 50 or 60 years ago, but we still do not understand our grandparents' notions. The advertising pages of today do not generate that much amusement; rather they elicit other kinds of thoughts. Every day the advertising pages of the newspapers are full, and there are even some papers that are expressly for classified ads. Sometimes it seems that the whole country is in perpetual motion, with all its movable and fixed possessions. Thousands and thousands want to change their jobs or swap apartments. There are those that want to get rid of their property, tools, and valuables, and there are those that are hungry for just these things. One would like to get married, another would like to break away from his /marriage/ bonds, only this last item cannot be published.

Much Red Tape

Looking through the classified ads for 1 or 2 weeks, it is striking how many appear with the same telephone number, that is, from the same seller. Today there are few who request publication once only, in a single publication; most publish their ads two or three times in each of at least two papers. This is at least for the reason that it is sometimes necessary to wait several weeks for publication, and if their first attempt was not successful, they would have to start standing in line all over again. One consequence of this, in turn, is that the number of manuscript ads waiting for publication increases further, and the waiting time lengthens even more. For it even happens that by the time the ad appears it is no longer timely, since the sale was made after the first publication or the position advertised had been filled.

It is hard to decide the question of whether it is better to advertise on the days when only a few of them are published in the

paper or precisely when they are offered to the readers in a four-page supplement, because many people look for newspapers particularly on the days they are full, hoping that the greater variety will mean a better chance for them.

There is hardly a minute when the offices that accept ads are not full of serpentine lines. Yet it is not quantity that causes the most worries for classified ads; it is much more the confusing pile of directives set up to regulate what can be communicated. The time has long past when anyone could publish anything he wanted in newspapers for money. There are laws, communication policy directives, and editorial-publishing decisions, which confront the man on the street in the form of advertising prohibitions. But they are often in the form of incomprehensible, unmotivated prohibitions, and therein lies the problem. Moreover, some of the rules are spread by word of mouth and are not written down, yet neglecting them can still bring a publisher or newspaper into court.

Flowery Language and Loopholes

If a person looks at the list of currently valid prohibitions compiled by a publisher, he will think of this anecdote from the 1950's, "On a certain collective farm, a bull ate the soap, so a circular letter went out stating that from then on it was forbidden to have soap." For some of the restrictions--lacking precedents--are superfluous, because who would think of advertising his child to be given away? Or what soldier, policeman, or railroad worker would sell his uniform through a classified ad? But this much is certain: there is a regulation so that no one will ever think of it.

Our advertising policy is generally characterized by prudishness. For decades we have accepted partners living together, even officially. But in marriage advertisements, this kind of searching for a partner is permitted only for those over 50 years of age. If, however, a man is looking for a partner for a summer vacation trip, he cannot write that he is thinking of a woman, as that is immoral, but of course he also cannot write that he wants a man, for that is even more immoral. And if we are this careful in selecting partners, why do we then give a green light for countless kinds of marriages of convenience? For it is not uncommon these days that an apartment, a car, or some property seeks a partner for itself, naturally with marriage as the object.

It can still be accepted that in marriage advertisements reference cannot be made to ideology or religion, but it is less clear why in funeral notices it is forbidden to write: "X. Y. will be buried in the Jewish cemetery." Because of this kind of prohibitions, a flowery advertising language has developed, in which the address of the Rakoskereszturi Jewish cemetery stands there in parentheses (Kozma u. 6.).

Many curious prohibitions have arisen especially in automobile advertising. There was a time when it was forbidden to describe a car as having been driven zero kilometers, or as brand new, or even as in good condition. But they could publish the serial number, which in certain situations gave the same information. Since cars less than 3 years old have had to be sold through Merkur, an official loophole has been put together: a car is sold with the right to operate it, which is nothing more than playing with the regulations. But a car that has been won in a raffle, for example, still cannot be advertised by the unlucky winner who--after considering his priorities--has decided not to keep the vehicle.

It is truly immoral for anyone to take care of his buying and selling during working hours and on the company telephone. So a regulation was made that a work telephone can only be printed with the permission of the supervisor. But they forgot to think through who is going to enforce the rule, because everyone has enough sense to figure out that if the extension number is not given, it is impossible to limit figure out whose number it is. (In this regard, it is not enough to limit the rule to certain times of day, because many people work second and third shifts.)

A telephone is listed under a name, and it does not belong to a residence, so it cannot be sold or traded along with an apartment. It cannot even be advertised that an apartment being offered has a telephone. But the most ingenious ones have found a loophole here as well. If an advertisement for some property states that one may inquire via the telephone number on the property, anyone reading the ad will have a hard time making contact, because the seller in principle only wanted to inform the reader that the telephone number is not a work number.

Matchmaking services have stirred up a lot of storms. Reading some of their advertisements, the humorist's joke is involuntarily recalled to mind: "Homosexuality used to be punished, later it was considered a sickness, today we more or less overlook it, I can hardly wait for it to be compulsory." Now, however, a good number of dating officers are openly trying to bring homosexuals together or to create connections other kinds under the title of "extra." For this they have asked--and received--permission. Some newspapers, out of moral considerations, do not publish advertisements originating with matchmaking services at all. But if the thing is immoral, why did they get permission for it? And if they have permission, why can they not advertise their activities, because this way these businesses can hardly be viable?

Outlived Their Time

When the establishment of small enterprises was made possible, it was known that in order for them to work, ideas and money were needed. Unfortunately, the idea and the money are not always possessed by the same individual. So one of them will seek a partner with capital, and the other will look for an enterprise to enter with his money. But we are ashamed of these ugly concepts inherited from capitalism, so we cannot write them down. Let the one find the other in any way they can. And of course they will find each other; this is shown by the large number of small enterprises in operation.

It is a fundamental requirement of our economic development that as far as possible everyone should work where he is needed. So we have started reorganizations. Naturally, people are not thrown out into the street; we have to think about a work opportunity for everyone. But there are some groups, or teams, that have become used to working together over the years, and would like to be relocated together somewhere. But this kind of group offering is forbidden in advertisements. Likewise forbidden is recruiting of workers for work in other countries, even though the export of complete projects is a vital interest.

We could list at great length humorous or irritating illogical and contradictory /regulations/. Instead, it would be more worthwhile to look at the facts and knock down the prohibiting signs that have perhaps somewhat outlived their time.

9611

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SCRUTINY OF ENTERPRISE WORK ASSOCIATIONS CONTINUES

Mixed Opinions

Budapest FIGYELO in Hungarian 26 Jul 84 p 6

/Article by Dr Peter Szirmai and Antal Beznoczky: "Opinions About the VGMK's"

/Text/ "What is the effect of the new forms of undertakings on political activity?" "How has the morale of the workers participating in the VGMK's /enterprise work associations/ changed?" "Does employment in a GMK /work association/ or VGMK have a cadre policy effect?" "How should we improve the enterprise rules regulating the operation of the VGMK's?" Such and similar questions are voiced day after day in every place of work. The breeze stirred up by the more than 10,000 VGMK's formed thus far is roiling the waters of employment, tranquil for decades, far beyond their strength.

For this very reason these questions are being formulated now not only in "corridor conversations" in the Metripond Scale Factory in Hodmezovasarhely. Leaders and subordinates, VGMK representatives and employees connected with the VGMK's, and not least of all the party and trade union leaders frequently testing public opinion have summarized their opinions about the VGMK's in answering a questionnaire containing 26 question.

A Temporary Phenomenon?

The picture emerging from the answers probably points beyond the internal affairs of the Scale Factory in many respects. We can follow from them processes taking place in social awareness and practice. This is all the more so because the need for collecting opinions through a questionnaire was not prompted by some sort of extreme or conflict, because the indexes of the Scale Factory connected with the VGMK's put the factory in the upper third of enterprises from this viewpoint. (Thus far 30 VGMK's have been formed, with 256 members, and last year the factory paid out a total of 5.5 million forints to the 15 VGMK's already operating.) On the contrary, the leaders of the enterprise felt that, taking cognizance

of the "multisector" nature of the factory, they must bring to the surface the conflicts of interests and opinions so that, taking these into consideration, they might regulate the relationship of the factory and the internal undertakings sector.

One might characterize as uncertain the feeling pertaining to the future of the GMK's and VGMK's. Those in them and fighting for them just as much as the critics of them regard the VGMK's as a temporary phenomenon. This hinders these quasi-small undertakings from becoming real undertakings with a longer-range strategy, and sometimes it aids the development of negative tendencies. This is the cause of the cunning or "self-exploitation" which can be experienced in places.

It is an important result of the survey that it became obvious to the social organs and economic leadership that they must improve the propaganda work connected with the undertakings and must popularize those facts and data which make obvious their profit to the larger community. From the improvement in productivity to the shortened performance time limits there are a number of such facts, but what figures most in the awareness of the community is some "successful pitch" of this or that VGMK or an hourly wage towering high, and even this index is not known: last year, as an average, a VGMK member paid income tax on a gross income of 50,000 forints per year.

Against Prejudices

True to our expectations a view has "come up" according to which "workers should be paid for their 8-hour work time and not only for overtime!" This is a widespread opinion, the demagoguery of which can be counterbalanced only with well-argued persuasion, because there is some truth in it (as in every demagogic, superficial statement). But it ignores the fact that, on the other hand, a number of complex enterprise and economic interdependencies affect wages in the main work time, from the much mentioned "balances" to work organization, and, on the other hand, that the secret of the increased performance of the VGMK's is not exclusively the higher income. Of course, the struggle against prejudices is not easy as long as one respondent answers the question "How do you judge the role of the agitation and propaganda activity of the social organs in getting this accepted?" by saying, "It is difficult to get the workers to understand and accept it since we do not agree among ourselves!" Propaganda work can be successful only if it is built on facts. It is a reassuring result of the survey that such facts can be found. The majority of the respondents judged positively the recording of the VGMK jobs, their separation and distinction from the main work time activity. There were doubts in this question at most with regard to intellectual work. The lesson here is the increased realization of the responsibility of the leaders.

As a whole the respondents evaluated positively the "cadre policy effects" because a VGMK is one of the most effective tools for retaining good skilled workers. "Look, we hardly find VGMK members among those quitting!" wrote one respondent.

Undertaking-Market Relationships

The uncertainty of price formation is not the exclusive problem of the Scale Factory. Every VGMK bid pays off for the factory if it is cheaper--under the same or better conditions--than the previous, outside cooperation partner. Not rarely the price difference is 30-50 percent despite the fact that the VGMK members realize an hourly wage of 150-200 forints, high enough to produce tension in the collective. It appears--and proposals made in the survey which directly contradict one another bear witness to this, too--that it will be difficult to make worthy progress in this area until we develop undertaking-market relationships. If competition among the VGMK's sets the fees for the several undertakings there will probably be less criticism from both sides of the practice of "price fixing and bargaining."

The survey also brought to light the existing antagonism between those joining a VGMK and those outside. One respondent put it this way: "According to the opinion of the majority, the VGMK causes tension, but they (those remaining outside of them) do not want the hard work done in free time, rather they want the income which can be obtained." It would be demagoguery to say here that everyone should join a VGMK because this is not a real possibility for many of them for quite different individual, social or even technological reasons. (We have already talked about the conflict of interest which appears in this way for a unique stratum, and this stratum is that of the leaders who not only cannot get extra income through this channel but whose work is frequently increased because of the VGMK's.)

A unique contradiction is mentioned in the answers of the VGMK representatives. While they are bound strictly by quality and time limit conditions, in more than one case the enterprise satisfies its payment obligation only late. (If only this were a problem for the VGMK's alone in the Hungarian economy!) In such a case the VGMK is entirely defenseless--it cannot press its demand in any way, or even get it honored. If subjective reasons alone led to this situation it would be easy to correct it, a directive from the director general would be enough.... But insofar as a firm becomes temporarily unable to pay because of late payment by customers, those making deliveries to it, including the VGMK's, must stand in line at the bank and there is no help for it. This problem, not a small one, cannot be solved exclusively within the factory.

The survey was not simply a "nosey opinion inquiry" but rather was directed toward recommendations aimed at developing the internal regulations. For example, it formulated a need for a VGMK regulation

to be published as a supplement to the organizational-operational rules which would regulate, with a framework character, the system of contacts between the enterprise and the VGMK's, from their formation through the undertaking of a job to their dissolution. A proposal which probably might be considered elsewhere, too, was that a quarterly or semiannual capacity contract, with a framework character, should be assigned with VGMK's that work reliably, with the of which, on the one hand, enterprise planning could make better use of the possibilities offered by the VGMK's and, on the other hand, the material security of the members would increase.

VGMK's Useful

Budapest ESTI HIRLAP in Hungarian 6 Aug 84 p 3

/Article by Laszlo Borsi: "The Enterprise Work Associations Help the Economy"/

/Text/ The introduction of a supplementary, auxiliary economy was probably one of the economic policy decisions that elicited the greatest interest and debate in recent years. Basically experts and laymen were divided into two camps--those who supported and encouraged it and those who had misgivings and opposed it. The arguments on both sides are known. It appears much more interesting now to say a word about the experience thus far and try to present a picture of them.

A difficult situation gave birth to them--the underutilization of fixed assets due to the personnel situation, the contradictions of enterprise wage regulations and backwardness appearing in services to the populace.

Hidden Energies

According to year-end data for last year, 110,000 people were working in the supplementary and auxiliary economy, 85 percent of them linked to the socialist sector. In Budapest the greatest progress and development appeared in the formation of enterprise work associations, according to the number of units and personnel. The rate of founding independent work associations decreased and the number of civil law associations decreased. At the same time there were more private merchants and artisans engaged in passenger and freight transport.

The Budapest party executive committee recently established that support for the supplementary and auxiliary economy was justified and necessary, despite the fact that they had undesirable effects in some places. Utilization of the assets of enterprises and cooperatives improved and hidden creative energies came to the surface which could be liberated with appropriate tools, for example, in this way. There was an increase in the efficiency of the management of those enterprises and cooperatives which could fit the supplementary, auxiliary forms into their organizational, operational and management systems.

But a few of the original ideas did not prove themselves. Thus far the money of the populace has been brought into production on a small scale and the spread of asset-intensive undertakings has been on a small scale. With one or two exceptions the level of services to the populace has not improved considerably, the number of shortage items has not decreased and there has not been the development of competition which would result in lower prices, extra services or even a different sort of more courteous seller behavior ready to serve.

The undesirable phenomena? In some cases there have been unjustifiably high incomes, irregularities in price formation and taxation, a decline in performance on the main job, injury to consumers, irregular acquisition of goods and deterioration in the goods or price inflation for some articles.

Dynamic Growth

What characterizes an enterprise work association? At the end of last year 36,657 people participated in 3,523 VGMK's in the capital; this exceeded 8 percent of the personnel employed in socialist industry and construction industry in Budapest. There were enterprise work associations in 62 percent of the enterprises located in the capital. The dynamic growth continued this year, also. At the end of the first quarter the number of VGMK's had already gone beyond 4,000. At a few enterprises the local leadership did not support the formation of VGMK's, fearing the spread of corruption within the firm or an upset of the organizational system which had developed. More than half of the work associations operate in industry and 23.1 percent in the construction industry. Relatively few work in the area of production preparation, which does not help the desired increase in organization in the main work time. Work intensity is greater than in the main work time also. In addition, the enterprises are trying in a number of ways to protect the latter. For example, they tie the work of the VGMK to main work time performance or prescribe a rest period between the two activities. The enterprises are trying to find a way to provide local guidance for the VGMK's and fit them into the enterprise system. Many good methods have developed in this area. These include internal rules, publications and consultations or the professional help of enterprise lawyers to define the practical activity.

Needs of the Populace

There are also the so-called independent work associations outside the enterprises. At the end of last year there were 2,353 in Budapest with a total of 12,000 participants. The dynamics of the growth declined beginning in the second half of the year. About 40 percent of the GMK's perform construction industry activity. Transportation communication, cultural and sport undertakings are significant. To a crucial extent they are connected with public institutions; the ratio of receipts from the populace does not reach 5 percent. It is

advantageous for the enterprises that most of the GMK's were formed to perform tasks which none would undertake earlier, and they perform them with short time limits at a favorable price. Authorizing secondary employment helps to retain good experts. Their intellectual and material products have already appeared on the export market, if only to a small extent. Their parts manufacturing and renovation work takes the place of import. Two-thirds of the members of the work associations take part in the work in addition to a main job. This represents material security, and the majority of the orders come from there, too, although the ratio of GMK members for whom this is the main job has increased recently.

Maintaining and developing further the supplementary, auxiliary economy is not a goal: it is rather a means to improve the work of the enterprises and cooperatives and carry out supply tasks meeting the needs of the populace. This expectation has proven itself in a number of areas in the past 2 years.

Additional VGMK's

Budapest MAGYAR HIRLAP in Hungarian 8 Aug 84 p 4

/MTI item: "New Work Associations"/

/Text/ The executive committees of the District X and District XIV councils recently reviewed the activity of the work associations, the small organizations formed in the past 2 years, and the experience with their operation. According to the findings of these bodies, the enterprise work associations have a favorable effect on production, the new organizations adapt to the economic and market environment flexibly and they manage rationally. But the original ideas have not proven themselves in every respect. The enterprise and independent work associations have contributed to only a small degree to narrowing the sphere of shortage articles and satisfying the needs of the populace.

In the 2 years, 436 GMK's were formed in Kobanya, and its is characteristic of the interest that about 300 requests reached the council this year. The majority of the work associations were formed to do construction industry repair, service and planning work, but some of them have undertaken computer programming. Few work associations were formed to provide services to the populace. Last year the 20 work associations formed at the Budapest Housing Construction Enterprise did 450,000 forints' worth of work for the populace.

According to the experiences the frequent modification of the association contracts gives a lot of work to the council. Because of the large number of work associations, adhering to the 30 day administrative time limit is causing a problem in the industry and trade departments. So far this year, workers from the council have

inspected 20 work associations. Their experiences are favorable. The little organizations are sticking to the activity spheres defined in the contract and are undertaking work corresponding to their strength.

There are 540 work associations in Zuglo, with about 5,000 members. The activities of the enterprises work associations are varied and they were formed primarily where there is a personnel shortage. The majority of the GMK's formed by private persons perform industrial and construction industry activity and in District XIV many are also dealing with computer technology beyond their regular work time. In Zuglo they even registered a GMK which rents instruments to musicians and they have issued licenses for antenna manufacture and electrical assembly, assembly of signal technology devices, injection molding and wood industry and upholstery industry machine manufacture; 144 independent work associations have been formed in the district.

There are work associations producing corrosion protection, advertising and press industry and cosmetic articles and medical instruments, among others. It is a frequent complaint of the work associations that the commercial court registration of the undertaking takes too long; they consider a process lasting 2-6 months to be unjustified.

8984

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FOREIGN EXCHANGE EARNINGS FROM TRANSPORTATION

Maritime Transportation

[Series of articles by Sl. Sindolic]

Belgrade PRIVREDNI PREGLED in Serbo-Croatian 26 Jul 84 p 3

[Text] Maritime transportation is among those branches of transportation which have the largest net inflow of foreign exchange. In 1980, when transportation as a whole had a foreign exchange inflow of 81,681 million dinars (63.40 dinars = \$1), the share of maritime transportation alone was 50,876 million dinars, or 62.2 percent. The next year the foreign exchange inflow of transportation was 115,321 million dinars, and that of maritime transportation all of 72,885 million dinars, or 63.2 percent. The year before last, when total inflow of foreign exchange was 97,326 million dinars, the share of maritime transportation was 58,479 dinars, or 60 percent. Last year the foreign exchange inflow of transportation was 92,013 million dinars, and the share of maritime transportation was 54,313 million dinars, or 59 percent.

Although the foreign exchange proceeds of maritime transportation, viewed as a whole, are rather large, it is the general impression that all the conditions exist for them to be still larger. The increase in the number of cargo ships and their capacity (last year about 4 million tons) is one of the preconditions for augmenting foreign exchange revenues. This made it possible for the volume of traffic in this branch of transportation to increase about 2.5-fold over the period 1960-1983, but its share in our imports and exports is still not what it should be in view of the possibilities which the Adriatic offers. It should also be emphasized that the processes of linkage and association have still not developed sufficiently in this branch; that is, there is no compact on specialization of seaports and on optimum division of labor. The reasons why this branch of transportation is not realizing larger foreign exchange revenues should also be sought in the inadequate collaboration with organizations in other branches of transportation in order to furnish larger quantities of goods for combined transit through our country.

Trade and Traffic

Trends in the last several years show best how much our maritime fleet has been involved in the total traffic of goods in domestic ports and what the

volume of its traffic has been. We should say at once that our country's total volume of imports and exports has had a definite impact on the growth of traffic and the volume of cargo in maritime transportation.

(quantity of goods in thousands of tons)

<u>Indicators</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Total cargo traffic in seaports	33,837	31,784	33,002
Carried by domestic vessels	14,192	13,103	13,085
Volume of traffic in seaports	31,130	29,339	30,694
Domestic traffic--unloading	2,741	2,461	2,329
Exports	3,380	3,639	4,629
By domestic vessels	1,221	1,342	1,595
Imports	19,172	18,145	18,565
By domestic vessels	6,860	6,337	6,150
Transit	5,837	5,094	5,171
By domestic vessels	663	518	746

The figures on traffic in domestic seaports show that the share of domestic vessels has ranged from 41.9 percent to 39.6 percent. At the same time within the volume of cargo traffic in seaports domestic traffic--unloading has been negligible (it ranged from 7.5 to 8.8 percent), while exports have shown a tendency toward more appreciable growth, but not a corresponding increase in the traffic carried by domestic vessels. The mild reduction of imports has also been accompanied by a mild reduction in the employment of domestic vessels. As for transit, there has been stagnation over the last 2 years, but also a slight increase in the employment of domestic vessels.

Foreign Exchange Revenues

When we analyze the trend of vessel traffic, which also includes "charter operation of vessels," then it is evident that in 1980, for example, the total volume of cargo was 26,224,000 tons, and international traffic alone was 23,744,000 tons, or 90.5 percent. Last year, when the total volume was 25,377,000 tons, international traffic accounted for 23,309,000 tons, or 91.8 percent. It is not difficult to conclude that the share of international traffic in total traffic by maritime vessels has been gradually increasing.

Over the last several years the foreign exchange revenues of maritime transportation have recorded uneven movements. Thus in the period 1978-1981 there was an increase from 35,826 million dinars to 72,885 million dinars, and then the year before last (\$1 = 63.40 dinars) they dropped to 58,479 million dinars. The foreign exchange revenues of this branch of transportation amounted to 54,313 million dinars last year. These revenues were derived as follows from services performed for domestic and foreign shippers (in millions of dinars):

<u>Year</u>	<u>Domestic Shippers</u>	<u>Foreign Shippers</u>	<u>Year</u>	<u>Domestic Shippers</u>	<u>Foreign Shippers</u>
1978	9,449	26,377	1981	24,992	47,893
1979	14,359	29,880	1982	18,405	40,074
1980	16,500	34,376	1983	16,264	38,049

The structure of revenues from transportation services for domestic shippers shows that the largest revenues were realized on the basis of imports (67.6 percent in 1981, 57.3 percent the year before last, and 52.7 percent last year) and exports (27.9 percent in 1981, 63.5 percent the year before last, and 44.7 percent last year), while revenues from carrying passengers and miscellaneous revenues are relatively small. However, when we analyze the structure of foreign exchange revenues from transportation services performed for foreign shippers, then the dominant revenues are "from carriage between foreign ports," which also includes transit--65.3 percent in 1981, 79.4 percent the year before last, and 70.8 percent last year. In the 3 years mentioned "miscellaneous revenues" had a share of 29.4 percent, 18.1 percent, and 20 percent, respectively, while revenues from carrying passengers, imports or exports were very small.

Where the Solutions Lie

A further growth of output and improvement of foreign trade in order to reduce the deficit in the country's balance of payments will also require changes not only in the composition of the merchant fleet (larger share of tankers, bulk carriers and container ships), but also modernization of seaports and better balanced development of those branches of transportation which "meet maritime transportation head on in seaports as large transportation junctions."

The long-range economic stabilization program attributes particular importance to those branches which are supposed to contribute to improvement of the country's trade balance and to increasing foreign exchange revenues. The capacity which has been built in maritime transportation (vessels, seaports and storage facilities) and those which are to be built (faster growth of capacity of the merchant fleet, which is supposed to reach about 5-6 million gross registered tons by the end of this decade) presuppose creation of conditions for effective and optimum maritime transportation and of those branches which facilitate a larger volume of combined transport. Only on those foundations and assuming appropriate economic policy measures (incentives for transit transportation, technology, integrated transportation, pooling of capital, and so on) is it possible to anticipate a larger share of maritime transportation in carrying our exports and imports and a growth of transit so as to achieve more favorable growth of foreign exchange revenues and expenditures in the movement of freight and cargo.

River Shipping

Belgrade PRIVREDNI PREGLED in Serbo-Croatian 27 Jul 84 p 3

[Text] In numerous documents concerning economic policy and transportation the role and importance of river shipping as one of the least expensive forms of transportation has been constantly stressed. Up until 1980 this branch of transportation was steadily increasing its volume of traffic, and then later it began to record a stagnation or even a decline of shipping. Back in 1978 this branch of transportation achieved a record volume of about 26.5 million tons of cargo, and then in the following years it gradually fell off and last year carried about 20.3 million tons of cargo.

Although river transportation was especially affected by construction of the Yugoslav petroleum pipeline (reduced transport of crude petroleum and petroleum products), this branch of transportation has continued to have unutilized vessel capacity. The efforts of the large carriers, especially Jugoslovensko recno brodarstvo [Yugoslav River Shipping] in Belgrade, to reorient toward the carrying of other bulk cargoes, have not proceeded as expected. There are still cases which a large number of manufacturers and export-import organizations are reluctant to use the advantages and conveniences offered by the shipment of cargo on the Danube (rates, costs, combined transportation, and so on). It must also be emphasized that the share of foreign vessels in carrying cargo continues to be rather high, which means that foreign vessels are being used to carry Yugoslav exports or to carry goods being imported for our market.

Traffic and Exports

The trend of traffic in domestic riverports shows that the largest quantities of cargo in the total volume of traffic are involved in domestic traffic--unloading: in 1981 the total was about 23.2 million tons, and domestic traffic--unloading accounted for 20.7 million tons of this; last year the total was 21.4 million tons, and domestic traffic--unloading was 18.2 million tons. At the same time, the share of export goods in the total volume of traffic is low, as can be seen from the following comparisons (in thousands of tons):

<u>Year</u>	<u>Domestic Vessels</u>	<u>Foreign Vessels</u>	<u>Year</u>	<u>Domestic Vessels</u>	<u>Foreign Vessels</u>
1978	506	201	1981	356	299
1979	420	353	1982	405	228
1980	304	308			

According to the final figures of the Federal Bureau of Statistics, exports represented 777,000 tons in the volume of riverport traffic last year, but there are no figures on the quantity of exports carried by domestic vessels and that carried by foreign vessels. However, it is the general assessment that river vessels are not used much to carry exports, and this is especially true of domestic river vessels. It is also significant here that foreign vessels are still being engaged to carry certain cargoes, which means that

precious foreign exchange is being spent. To be sure, since 1979 there has been a trend toward a gradual reduction of the employment of foreign vessels to carry our exports, but it is still being done.

Traffic and Imports

The volume of traffic in domestic riverports indicates that imports of goods by river have been gradually increasing, but only over the last 3 years. However, when we make a comparison over a longer period of time, then imports have dropped off appreciably, as shown by the figures below (in thousands of tons):

<u>Year</u>	<u>Domestic Vessels</u>	<u>Foreign Vessels</u>	<u>Year</u>	<u>Domestic Vessels</u>	<u>Foreign Vessels</u>
1978	2,930	2,224	1981	1,428	497
1979	2,933	2,350	1982	1,581	441
1980	2,209	1,056			

Last year's figures show that about 2.4 million tons of total riverport traffic were imports, which is the largest quantity since 1981. The reasons for these trends should be sought primarily in reduced imports of petroleum and petroleum products. It is also significant that the share of foreign vessels in carrying our imports has been gradually decreasing. In 1978, for example, when imports amounted to 5.2 million tons, foreign vessels carried out 43 percent of this cargo, in 1980 (when 3.3 million tons were imported) a drop to 32.3 percent was recorded, and then the year before last (imports at 2 million tons) a further drop was recorded to 21.8 percent. As traffic has fallen off, there has been less employment of foreign vessels, which is certainly a constructive trend. Within the volume of traffic in domestic riverports we should emphasize that last year a record volume of transit cargo was recorded--about 8.1 million tons (about 7.7 million tons the previous year).

Insufficient Traffic and Revenues

When the trend of traffic in river transportation is analyzed in more detail, it is not difficult to spot that the largest quantities of cargo carried are in domestic traffic. Here is that comparison (in thousands of tons):

<u>Year</u>	<u>Total Traffic</u>	<u>Domestic Traffic</u>	<u>Year</u>	<u>Total Traffic</u>	<u>Domestic Traffic</u>
1978	26,492	22,917	1981	22,729	20,717
1979	26,444	22,889	1982	21,196	19,057
1980	25,990	23,246	1983	20,320	18,185

On the one hand, as we see, the share of domestic traffic is dominant, while on the other the remaining quantities of traffic consist of imports, exports, and so on. This only completes the previous assessment of underutilization of river transportation capacity in carrying international cargo traffic. All of this is also rounded out by the inadequate foreign exchange revenues of this

branch, which in 1979 realized 1,807 million dinars (\$1 = 63.40 dinars), only 1,197 million the year before last, and 1,405 million dinars last year.

Along with the railroads and maritime shipping, river transportation certainly can also make a contribution to further improvement of foreign trade and larger foreign exchange revenues (through an increased share in exports, imports and transit traffic). There is no longer any dilemma whatsoever that in international visible trade, especially because of its connections, its transport capability and its low transportation cost, river transportation makes it possible for various comparative advantages to be realized on the foreign market. This is emphasized on the consideration that construction of the Djerdap hydropower and navigation system has not only increased the navigability of the Danube, but has also improved the potential opportunities for larger participation of river shipping in international cargo traffic.

Completion of work to build the Danube--Tisa--Danube canal system and then construction of the Rhine--Main--Danube Canal and other waterways should certainly contribute to this as well. Assuming improvement and more rapid development of riverports, application of up-to-date equipment and technology, and greater use of integrated transport, the conditions will gradually be created for improvement and development of combined transport and larger river cargo traffic to meet the needs of imports, exports and transit. If development programs are worked out jointly with domestic and foreign customers (containers, pushboats, specialized fleets, and so on), it is realistic to anticipate that river transportation will gradually begin to increase its share in international cargo traffic and realize a larger inflow of foreign exchange than up to now.

Railroad Transportation

Belgrade PRIVREDNI PREGLED in Serbo-Croatian 2 Aug 84 p 3

[Text] The social compact on Yugoslavia's transportation policy, which was adopted back in 1978, pointed up the need "to satisfy the needs for transportation services both on the domestic market and also in the exporting of goods." It was also emphasized that improvement of the quality of service and lower shipping costs would guarantee "an increased share of our transportation organizations in the country's visible foreign trade (exports and imports especially), especially the share of rail, maritime and river transportation." The documents embodying the Long-Range Economic Stabilization Program confirm the commitments stated above, emphasizing the importance "to increase the share of our branches of transportation in transit, especially in direct rail and rail-sea and maritime transit, as well as transit cargo carried by our river fleet." We should add to all this the effort to ensure "a greater inflow of foreign exchange from transportation services, both from transit and international carriage."

Following maritime transportation, the railroads are one of our greatest carriers in the international shipment of freight. Comparisons over the last several years indicate trends to the effect that this branch of transportation is still not sufficiently employed in carrying our imports and exports. That

is, when we examine the total freight carried by the railroads over the period 1980-1983, say, this branch of transportation used most of its carrying capacity to meet the needs of domestic transportation.

A Traffic Structure Detrimental to Transit

The available figures of the Federal Bureau of Statistics published recently as definitive make it possible to draw a conclusion as to how much the railroads have increased or diminished their participation in carrying international freight relative to the total freight carried. The gradual increase in the volume of freight carried, however, has not at the same time meant that more of our exports and imports or transit freight were carried.

These comparisons show that in the 4 years being analyzed domestic freight traffic ranged between 73 and 74 percent of all the freight carried. At the same time, carriage of export goods has stayed practically at the same level for 3 years, and only last year did it show any appreciable increase in its share. The railroads have been increasing their share as exports have grown. Whereas in 1980 exports represented 7.26 percent of the volume of traffic, in the last year analyzed there was a rise to 9.11 percent of total traffic. In view of the export programs for 1984 and coming years, it is realistic to expect, assuming the railroads equip themselves better for international transportation, that its share in this area, in total freight traffic, will continue to increase gradually, especially in carrying out the export-import agreements with the Soviet Union, Italy, Austria and other countries.

The year before last and last year the declining tendency of total imports continued. In part this had the impact of a certain drop in the involvement of the railroads in carrying imports. Whereas in 1980, for example, imports represented 11.78 percent of all the freight carried by the railroads, by last year this share had dropped to 10.26 percent. Viewed as a whole and in view of the physical volume of imports, it must be concluded that the share of the railroads is still inadequate. If we add to this that this branch of transportation is forced in certain periods of the year even to use cars of foreign railroads, then one gets a fuller picture of the share of our railroads in carrying goods being imported.

It is also characteristic of transit that the stagnation in total traffic in the first 3 years analyzed was also accompanied with few exceptions by stagnation of this form of transportation. However, last year there was a drop in transit traffic of almost 1 million tons, 977,000 tons of freight. The result of this is that the share of transit in the total volume of freight traffic was 7.78 percent in 1980, 7.63 percent the following year, and then the year before last it was the highest at 7.90 percent, and then last year dropped to only 6.55 percent.

In Favor of a Larger Share in Carrying Yugoslav Goods

When foreign exchange revenues in transportation are analyzed, it is striking that the railroads have an unfavorable balance. Since 1978 this branch of transportation "has had only direct foreign exchange earnings, but not dinars

collected from domestic users of services, which are treated like foreign exchange in the other branches of transportation." In other words, "the service of carrying exports and imports for domestic clients is billed in dinars, although the Yugoslav railroads pay for transportation services to and from the border performed by foreign railroad organizations in foreign exchange." Because of these relations, the railroads have shown negative differences. The railroads have shown a negative difference for all services except passenger traffic and transit (exports, imports, car rental, and so on). Thus in 1980 revenues from exports worth 2,107 million dinars, and then the year before last they increased to 3,544 million dinars, and last year dropped back to 1,921 million dinars. The negative value for imports in 1981, say, was 7,209 million dinars, and then in the next year it dropped to 5,800 million dinars, and last year it was 3,892 million dinars. Transit on the other hand has brought the railroads larger revenues: 8,087 million dinars in 1979, 6,052 million the next year, 9,367 million in 1981, 8,396 million dinars the year before last, and 6,251 million dinars last year (all the amounts are based on the rate of \$1 = 63.40 dinars).

Quantities of Freight Carried, in thousands of tons

<u>Traffic</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Total	84,870	85,982	85,703	88,448
Domestic traffic	62,101	63,281	63,648	65,504
Exports	6,164	6,008	6,029	8,060
Imports	10,002	10,132	9,247	9,082
Transit	6,603	6,561	6,779	5,802

This unfavorable relationship (the negative value of foreign exchange revenues of the railroads was 2,970 million dinars in 1980, 2,935 the next year, and 1,172 million dinars the year before last, while last year it had a result of +76 million dinars) demands not only appropriate measures to ensure socially optimum division of transportation among the various branches of transportation (incentives, use of domestic rolling stock, and coordination of the branches of transportation), but also more rapid development and improvement of transit traffic through our country.

Within the framework of measures and incentives for transit and international traffic, the railroads ought to equip themselves more rapidly in order to increase their share in our exports and imports. On that basis and those relations considerable savings of foreign exchange which work organizations are paying today for transport services would be achieved. This also indicates that programs for development of the railroads, which are one of the factors in strengthening our competitiveness with respect to the quality of service and reduction of shipping costs, ought to keep pace with the foreign trade programs to a greater extent than up to now.

Highway Transportation

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[Text] Following maritime and air transportation, highway transportation has the greatest impact on total foreign exchange revenues in transportation since the railroads have a negative result (greater foreign exchange expenditures than revenues). By contrast with other branches, which have increased their foreign exchange revenues unevenly, highway transportation recorded stagnation for 2 years, say, and then later achieved a jump upward. We see in the figures of the Federal Bureau of Statistics that in 1977 it had foreign exchange revenues of 4,600 million dinars, 5,049 million the next year, and 7,774 million dinars in 1979, which indicates a mild but steady growth. At the same time, in the next year, 1980, foreign exchange revenues increased slightly to 7,814 million dinars, and then in 1981 and 1982 they made a sizable "jump" to 11,070 million and 11,152 million dinars. Last year, according to incomplete figures, this branch of transportation had revenues of 11,413 million dinars (\$1 = 63.40 dinars).

The growth of foreign exchange revenues in highway transportation was the result of a marked increase in the volume of freight carried, especially in the last 2 years. Whereas in 1980, for example, about 2.7 million tons were carried (exports, imports and transit), and the figure the next year was about 2.4 million tons, the year before last and last year international traffic amounted to about 5.5 million tons. It is significant in this connection that because of the restrictive measures on the domestic market (petroleum, gasoline and costs) between the year before last and last year this branch of transportation had a drop of about 8.8 million tons in total traffic, while international traffic increased from 5,549 million tons to 5,587 million tons of freight.

Structure of Revenues

As with the other branches, highway transportation has been realizing foreign exchange revenues on two bases: from carriage for domestic clients (including revenues in dinars treated as foreign exchange) and from carriage for foreign clients. It should immediately be said that the latter revenues are appreciably larger, as indeed they are with the other branches.

When we analyze revenues from carriage for domestic clients, it is striking that the largest revenues come from exports and imports, and the smallest from passenger traffic. On the other hand, exports have the dominant place in total revenues from carriage for foreign clients, but it is significant that the revenues on the basis of transport and carriage between foreign points have increased appreciably. Revenues from passenger traffic are very small in this case once again.

(in millions of dinars)

<u>Foreign Exchange Revenues</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Total	7,814	11,070	11,152	11,413
From domestic clients	5,099	5,134	3,311	3,601
Passenger traffic	171	144	173	632
Exports	2,959	2,830	1,712	1,226
Imports	1,640	1,688	904	616
Other	329	472	522	1,127
From foreign clients	2,715	5,936	7,841	7,812
Passenger traffic	180	488	285	455
Exports	830	3,183	3,279	2,912
Imports	473	1,194	799	892
Transit	261	551	1,855	1,210
Carriage between foreign points	887	441	1,612	2,307
Other	84	79	11	33

Future Orientation

Plans for development of production in industry and agriculture and foreign trade programs in coming years will provide new quantities of goods to be carried by the various branches of transportation. Programs for the development of tourism envisage still larger passenger traffic than up to now, essentially in international transportation. Highway transportation, which has achieved a marked expansion in past years, will continue to be an ever larger carrier of freight to meet the needs of exporting, importing or transit. However, in view of the energy balance (fuel prices, prices in imports of fuel and other products), more economical and optimum solutions have to be explored for carrying freight, especially long hauls. After all, if highway transportation is to increase its foreign exchange revenues as part of foreign trade and at the same time its costs are to have a detrimental effect on the country's energy situation, then that means that our country is made more dependent on imported energy. That is why it is extremely important to use highway transportation on the basis of established policy and an agreement only where this is economically and socially justified (choice of goods, short hauls, border traffic, places where the other branches are not able to go, and so on).

The growth of the foreign exchange revenues of highway transportation will also depend in large part on construction and modernization of the highway network. Larger foreign exchange revenues can be expected only if the highway network is equipped for modern, efficient and optimum transportation so that our country becomes part of the European highway system as soon as possible.

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